FARMERS BRANCH

PRELIMINARY OFFICIAL STATEMENT

Dated July 8, 2014

Ratings:
S&P: "AA+"
Fitch: "AA+"
See "Other Information – Ratings" herein

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not "private activity bonds." See "Tax Matters – Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE BONDS ***WILL NOT BE*** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

$13,945,000*
CITY OF FARMERS BRANCH, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, SERIES 2014

Dated Date: July 15, 2014 | **Due: February 15, as shown on Page 2**
Interest to Accrue From Date of Delivery

PAYMENT TERMS . . . Interest on the $13,945,000* City of Farmers Branch, Texas, General Obligation Bonds, Series 2014 (the "Bonds") will accrue the date of the initial delivery of the Bonds and will be payable February 15 and August 15 of each year commencing February 15, 2015, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1331, Texas Local Government Code, as amended, an election held on May 10, 2014 and an ordinance to be adopted by the City Council of the City (the "Bond Ordinance") and constitute direct obligations of the City of Farmers Branch, Texas (the "City"), payable from the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Bond Ordinance (see "The Obligations - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to provide funds for permanent public improvements, to-wit: engineering, constructing, reconstructing, improving, repairing, developing, extending and expanding streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the City, including streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting, and the acquisition of land therefor; and (ii) to pay the costs associated with the issuance of the Bonds.

CUSIP PREFIX: 309495
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

SEPARATE ISSUES . . . The Bonds are being offered by the City concurrently with the "City of Farmers Branch, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2014" (the "Certificates"), under a common Official Statement, and the Bonds and the Certificates are hereinafter sometimes referred to as the "Obligations". The Bonds and the Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the tax status of its interest and other features.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell and Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C – Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on August 14, 2014.

BIDS DUE TUESDAY, JULY 15, 2014 AT 11:00 A.M. CDT

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* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Bonds shown on the Maturity Schedule on page 2.

CUSIP Prefix: 309495 [(1)]

MATURITY SCHEDULE*

February 15 Maturity	Principal Amount	Interest Rate	Initial Price or Yield	CUSIP Suffix[(1)]
2015	$ 1,145,000			
2016	1,175,000			
2017	1,220,000			
2018	1,275,000			
2019	445,000			
2020	455,000			
2021	465,000			
2022	475,000			
2023	490,000			
2024	505,000			
2025	525,000			
2026	550,000			
2027	565,000			
2028	585,000			
2029	615,000			
2030	640,000			
2031	665,000			
2032	690,000			
2033	715,000			
2034	745,000			

(Interest Accrues from Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services, LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2025, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Bonds are structured by the Initial Purchaser as "term" Bonds, such term Bonds will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Bond Ordinance, which provisions will be included in the final Official Statement.

* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Bonds shown on the Maturity Schedule above.

FARMERS BRANCH

PRELIMINARY OFFICIAL STATEMENT

Dated July 8, 2014

Ratings:
S&P: "AA+"
Fitch: "AA+"
See "Other Information – Ratings" herein

In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not "private activity bonds." See "Tax Matters – Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE CERTIFICATES ***WILL NOT BE*** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$2,000,000*
CITY OF FARMERS BRANCH, TEXAS
(Dallas County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

Dated Date: July 15, 2014
Interest to Accrue From Date of Delivery

Due: February 15, as shown on Page 4

PAYMENT TERMS . . . Interest on the $2,000,000* City of Farmers Branch, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "Certificates") will accrue the date of the initial delivery of the Certificates and will be payable February 15 and August 15 of each year commencing February 15, 2015, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance to be adopted by the City Council of the City (the "Certificate Ordinance" and together with the Bond Ordinance, the "Ordinances") and constitute direct obligations of the City of Farmers Branch, Texas (the "City"), payable from a combination of (i) the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge, in an amount not to exceed $1,000, of the Surplus Revenues of the City's Waterworks and Sewer System (the "System") as provided in the Certificate Ordinance (see "The Obligations - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used (i) for acquisition, equipping or constructing of joint public safety dispatch, communications and training facilities (the "Project") and (ii) to pay the costs associated with the issuance of the Certificates.

CUSIP PREFIX: 309495
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the "City of Farmers Branch, Texas, General Obligation Bonds, Series 2014" (the "Bonds"), under a common Official Statement, and the Certificates and the Bonds are hereinafter sometimes referred to as the "Obligations". The Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the tax status of its interest and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell and Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C – Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on August 14, 2014.

BIDS DUE TUESDAY, July 15, 2014 AT 11:00 A.M. CDT

* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Certificates shown on the Maturity Schedule on page 4.

CUSIP Prefix: 309495 [(1)]

MATURITY SCHEDULE*

February 15 Maturity	Principal Amount	Interest Rate	Initial Price or Yield	CUSIP Suffix[(1)]
2015	$ 180,000			
2016	185,000			
2017	190,000			
2018	195,000			
2019	195,000			
2020	200,000			
2021	205,000			
2022	210,000			
2023	215,000			
2024	225,000			

(Interest Accrues from Date of Delivery)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services, LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

OPTIONAL REDEMPTION . . . The Certificates are not subject to redemption prior to maturity. (see "The Obligations - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Certificates are structured by the Initial Purchaser as "term" Certificates, such term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Certificate Ordinance, which provisions will be included in the final Official Statement.

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* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Certificates shown on the Maturity Schedule above.

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document, as the same may be supplemented or corrected from time to time, may be treated as an Official Statement with respect to the Obligations described herein deemed "final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information provided by Subsection (b)(1) of Rule 15c2-12.

This Official Statement, which includes the cover pages and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell Obligations in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

THE OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY NOR ITS FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY THE DEPOSITORY TRUST COMPANY.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

The agreements of the City and others related to the Obligations are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer of sale of the Obligations is to be construed as constituting an agreement with the purchasers of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY .... The City of Farmers Branch (the "City") is a political subdivision and home rule municipal corporation of the State, located in Dallas County, Texas. The City covers approximately 12.1 square miles (see "Introduction - Description of the City").

THE BONDS .... The $13,945,000* General Obligation Bonds, Series 2014 are issued as serial bonds maturing 2015 through 2034, inclusive, unless the Initial Purchaser designates one or more maturities as a Term Bonds (see "The Obligations – Description of the Obligations" and "The Obligations – Optional Redemption").

THE CERTIFICATES .... The $2,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2014 are issued as serial certificates maturing 2015 through 2024, inclusive, unless the Initial Purchaser designates one or more maturities as a Term Certificate (see "The Obligations - Description of the Obligations" and "The Obligations – Optional Redemption").

PAYMENT OF INTEREST .... Interest on the Obligations accrues from the date of the initial delivery of the Obligations, and is payable February 15, 2015, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations – Optional Redemption").

AUTHORITY FOR ISSUANCE.......... The Bonds are issued pursuant to the general laws of the State, particularly Chapter 1331, Texas Local Government Code, as amended, an election held on May 10, 2014 and an ordinance to be adopted by the City Council of the City (the "Bond Ordinance").

The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and a Certificate Ordinance to be adopted by the City Council of the City (see "The Obligations - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the City, payable from the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, (see "The Obligations - Security And Source Of Payment").

SECURITY FOR THE CERTIFICATES................................ The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge, in an amount not to exceed $1,000, of Surplus Revenues of the Waterworks and Sewer System of the City (see "The Obligations - Security And Source Of Payment").

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS .... The City will not designate the Obligations as "qualified tax-exempt obligations" for financial institutions.

REDEMPTION .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2025, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations – Optional Redemption"). Additionally, the Bonds may be subject to mandatory redemption in the event the Initial Purchaser elects to aggregate one or more maturities as a Term Bond (see "The Obligations – Mandatory Sinking Fund Redemption").

The Certificates are not subject to optional redemption prior to maturity. Additionally, the Certificates may be subject to mandatory redemption in the event the Initial Purchaser elects to aggregate one or more maturities as a Term Certificate (see "The Obligations – Mandatory Sinking Fund Redemption").

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* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Obligations shown on the Maturity Schedule on pages 2 and 4.

TAX EXEMPTION........................... In the opinion of Bond Counsel, the interest on the Obligations is excludable from gross income for federal income tax purposes under existing law and the Certificates are not "private activity bonds." See "Tax Matters - Tax Exemption" for a discussion of the opinion of Bond Counsel including a description of alternative minimum tax consequences for corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used (i) to provide funds for permanent public improvements, to-wit: engineering, constructing, reconstructing, improving, repairing, developing, extending and expanding streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the City, including streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting, and the acquisition of land therefor; and (ii) to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used (i) for acquisition, equipping or constructing of joint public safety dispatch, communications and training facilities (the "Project") and (ii) to pay the costs associated with the issuance of the Certificates.

RATINGS .... The Obligations and the presently outstanding tax-supported debt of the City is rated "AA+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings, Inc. ("Fitch"), without regard to credit enhancement (see "Other Information - Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "The Obligations - Book-Entry-Only System") .

PAYMENT RECORD .... The City has never defaulted in payment of its general obligation tax debt.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated City Population [1]	Taxable Assessed Valuation[2]	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt[3]	Per Capita G. O. Tax Debt[3]	Ratio G.O. Tax Debt to Taxable Assessed Valuation[3]	% of Total Tax Collections
2010	28,616	$ 4,128,275,336	$ 144,265	$ 27,380,000	$ 957	0.66%	99.54%
2011	28,600	3,769,497,341	131,801	24,330,000	851	0.65%	99.62%
2012	28,620	3,631,789,854	126,897	21,145,000	739	0.58%	99.46%
2013	28,800	3,688,232,621	128,064	29,045,000	1,009	0.79%	97.71%
2014	28,800	3,845,391,617	133,521	42,855,000 [4]	1,488 [4]	1.11% [4]	95.24% [5]

(1) Based on North Central Texas Council of Governments original population estimates with the exception of 2010, which is based on the 2010 U.S. Census.
(2) As reported by the Dallas Central Appraisal District on the City's Annual State Property Tax Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt of the City (see Tables 1 and 10 for a description of the City's self-supporting debt).
(4) Includes the Obligations. Preliminary, subject to change.
(5) Collections as of April 30, 2014.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Beginning Balance	$ 11,599,826	$ 11,645,599	$ 8,628,224	$ 8,829,049	$ 9,041,485
Total Revenue	44,408,266	42,619,016	43,436,775	42,032,301	41,046,533
Total Expenditures	48,575,095	48,184,093	45,067,962	46,104,811	46,686,244
Net Transfers	4,574,881	5,519,304	4,648,562	3,871,685	5,427,275
Ending Balance	$ 12,007,878	$ 11,599,826	$ 11,645,599	$ 8,628,224	$ 8,829,049

For additional information regarding the City, please contact:

Charles S. Cox
Managing Director - Finance & Administration
City of Farmers Branch, Texas
City Hall Plaza
13000 William Dodson Parkway
Farmers Branch, TX 75234
(972) 919-2518

or

W. Boyd London, Jr.
Marti Shew
First Southwest Company
325 North St. Paul Street
Suite 800
Dallas, Texas 75201
(214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Bob Phelps Mayor	22 Years	May 2017	Retired Insurance Agent
Ana Reyes Councilmember - Place 1	1 Year	May 2016	District Manager for Texas State Representative Rafael Anchia
Harold Froehlich Councilmember - Place 2	6 Years	May 2017	Banking
Jeff Fuller Mayor Pro Tem - Place 3	2 Years	May 2015	Retired
Kirk Connally Deputy Mayor Pro Tem - Place 4	1 Year	May 2016	Retired
Ben Robinson Councilmember - Place 5	11 Years	May 2015	Certified Public Accountant

SELECTED ADMINISTRATIVE STAFF

Name	Position	Years of Service
Gary D. Greer	City Manager	7 Years
Angela Kelly	City Secretary	2 Years
Tom Bryson	Communications Director	15 Years
Jim Olk	Community Services Director	19 Years
John Land	Managing Director - External Operations	5 Years
Kevin Muenchow	Fleet & Facilities Management Director	7 Years
Charles S. Cox	Managing Director - Finance & Administration	21 Years
Steve Parker	Fire Chief	14 Years
Jeff Harting	Parks & Recreation Director	29 Years
Sid Fuller	Police Chief	8 Years
Randy Walhood	Public Works Director	13 Years
Brian Beasley	Human Resources Director	1 Years
Mark Samuels	Information Services Director	2 Years

CONSULTANTS AND ADVISORS

Auditors .... Grant Thornton L.L.P.
Dallas, Texas

Bond Counsel .... Bracewell & Giuliani LLP
Dallas, Texas

Financial Advisor.. First Southwest Company
Dallas, Texas

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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$13,945,000*
CITY OF FARMERS BRANCH, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2014

$2,000,000*
CITY OF FARMERS BRANCH, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $13,945,000* City of Farmers Branch, Texas, General Obligation Bonds, Series 2014 (the "Bonds") and $2,000,000* City of Farmers Branch, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "Certificates" and together with the Bonds, the "Obligations"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances to be adopted on the date of sale of the Obligations which will authorize the issuance of the Obligations (respectively, the "Bond Ordinance" and the "Certificate Ordinance" and collectively, the "Ordinances").

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "Other Information - Forward-Looking Statements Disclaimer").

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and home rule municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1946, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is three years with the terms of two members expiring every year. The City Manager is the Chief Executive Officer for the City. Some of the services that the City provides are: public safety (police and fire protection), streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 U.S. Census population for the City was 28,616, while the estimated 2014 population is 28,800. The City covers approximately 12.1 square miles.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated July 15, 2014 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on pages 2 and 4 hereof. Interest will accrue from the date of their initial delivery to the Initial Purchaser, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2015, until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the owners thereof.** Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "The Obligations - Book-Entry-Only System" herein.

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* Preliminary, subject to change. The City reserves the right to adjust the principal amount of the Obligations shown on the Maturity Schedule on pages 2 and 4.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1331, Texas Local Government Code, as amended, an election held on May 10, 2014 and the Bond Ordinance.

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT . . .

The Bonds . . . constitute direct obligations of the City, the principal thereof and interest thereon are payable from a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on all Bonds.

The Certificates constitute direct obligations of the City and are payable from and secured by a combination of (i) the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge, in the amount not to exceed $1,000, of Surplus Revenues of the Waterworks and Sewer System of the City as provided in the Certificate Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 minimum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2025, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

The Certificates are not subject to optional redemption prior to maturity.

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Obligations are structured as "term" Obligations, such term Obligations will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinances, which provisions will be included in the final Official Statement.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Obligations to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Ordinances, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Obligations conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Obligations subject to conditional redemption and such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Obligations will send any notice of redemption or other notices with respect to the Obligations only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Obligations called for redemption or any other action premised or any such notice.

Redemption of portions of the Obligations by the City will reduce the outstanding principal amount of such Obligations held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Obligations held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Obligations from the beneficial owners. Any such selection of Obligations to be redeemed will not be governed by the Ordinances and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Obligations or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Obligations for redemption. See "The Obligations - Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinances provide that the City may discharge its obligations to the registered owners of any or all of the Obligations to pay principal, interest and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Obligations to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the City payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Obligations; provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Obligations. If any of such Obligations are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinances.

Under current Texas law, upon the making of a deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Obligations. Because the Ordinances do not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Obligations is to be transferred and how the principal of and interest on the Obligations are to be paid to and accredited by DTC while the Obligations are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Obligations), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered Obligations registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Obligations held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinances will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Initial Purchaser.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Obligations will be issued to the holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "The Obligations - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas. In the Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Obligations at stated maturity or earlier redemption will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "The Obligations - Book-Entry-Only System" herein. Interest on the Obligations will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "The Obligations – Record Date for Interest Payment" herein), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Obligations is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment as due. So long as Cede & Co. is the registered owner of the Obligations, payments of principal and interest on the Obligations will be made as described in "Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Obligations will be issued to the owners of the Obligations and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "The Obligations - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

OBLIGATIONHOLDERS' REMEDIES . . . The Ordinances establish as "events of default" (i) the failure to make payment of principal of or interest on any of the Obligations when due and payable; or (ii) default in the performance of observance of any other covenant, agreement or obligation of the City, which default materially and adversely affects the rights of the related Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of sixty days after notice of such default is given by any Owner to the City. Under State law, there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. Although a registered owner could presumably obtain a judgment against the City if a default occurred in any payment of the principal of or interest on any such Obligations, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Moreover, there is no assurance that the remedy of mandamus will be available, as discussed in the next following paragraph.

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3rd 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Obligations, the City is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing the Obligations.

The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Obligationholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that the rights of holders of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF PROCEEDS . . . Proceeds from the sale of the Obligations are expected to be expended as follows:

	The Bonds	The Certificates
SOURCES OF FUNDS		
Principal Amount of Certificates		
Net Premium		
TOTAL SOURCES	$ -	$ -
USES OF FUNDS		
Deposit to Construction Fund		
Cost of Issuance		
TOTAL USES	$ -	$ -

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required under Title I, Texas Tax Code, as amended (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) an exemption of no less than $5,000 and up to 20% of the market value of residence homesteads.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than maintenance, repairs or improvements required to comply with governmental requirements) and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established such freeze cannot be repealed or rescinded. The City can make no representations or predictions concerning the impact such tax limitation would have on the City's tax rate, financial condition or ability to make debt service payments.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000; provided, however, that a disabled veteran who receives 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability from the United States Department of Veteran Affairs, or its successor, is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead; additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013 election, was a constitutional amendment providing that the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and opens-space land.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has two tax increment financing zones for tax increment financing purposes (see "Tax Information - City Application of Tax Code"). Taxes levied by the City against the value of property in the TIF in excess of the tax increment base value are not available for general city use, but are restricted to paying project costs within the TIF.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Effective January 1, 2012, oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Disabled taxpayers and taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. A delinquent tax continues to incur the penalty as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $65,000; the disabled are also granted an exemption of $60,000.

The City has granted an additional exemption of 20% of the market value of residence homesteads; the minimum exemption that may be granted being $5,000.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax non-business personal property and Dallas County collects taxes for the City.

The City does not permit split payments of taxes, and discounts for early payment of taxes are not allowed.

The City Council approved an exemption for freeport property which took effect on January 1, 2004.

The City does tax "Goods-in-Transit."

See Table 1 for a listing of the amounts of the exemptions described above.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has not established a freeze on the taxes on residence homesteads of persons 65 years of age or who are disabled, as may be done on a local option basis.

The City has adopted a tax abatement policy, as described below.

TAX ABATEMENT POLICY . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement of up to 30% for a period of up to five years.

TAX INCREMENT FINANCING ZONES . . . The City has established two reinvestment zones ("TIF 1" and "TIF 2") for the purpose of tax increment financing of infrastructure. In accordance with State law pertaining to tax increment reinvestment zones, the costs of public infrastructure improvements in the zone are repaid by the contribution of future tax revenues by each taxing unit that levies taxes against the property. The City contributes 35% of the incremental tax revenues generated from the City's ad valorem tax associated with the growth of the tax base in TIF 1 and 100% of the incremental tax revenues associated with the growth of the tax base in TIF 2 to a special fund to pay costs of infrastructure in the zones. There are $48,759,655 of infrastructure improvements in the TIF 1 project plan, including streets, water, sewer, lighting, and landscaping. There are $7,128,435 of infrastructure improvements in the TIF 2 project plan, including streets, water and sewer projects. TIF 1 and TIF 2 are scheduled to terminate in 2018 and 2019 respectively.

CHAPTER 380 AGREEMENTS . . . The City has entered into several agreements pursuant to Chapter 380 of the Local Government Code, none of which have a material impact on the City's finances.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2013/14 Market Valuation Established by Dallas Central Appraisal District		$ 4,823,794,640
Less Exemptions/Reductions at 100% Market Value		
Totally Exempt Parcels	$ 396,616,687	
Homestead	182,136,323	
Freeport	198,678,396	
Over 65	144,782,495	
Agricultural	45,573,447	
Disabled Persons	7,167,796	
Pollution Control	952,621	
Disabled Veterans	850,696	
Veteran 100%	964,842	
Capped Value Loss	640,040	
Properties Valued Under $500	39,680	$ 978,403,023
2013/14 Net Taxable Assessed Valuation		$ 3,845,391,617
2014/15 Preliminary Net Taxable Assessed Valuation		$ 4,417,003,760 (1)
City Funded Debt Payable From Ad Valorem Taxes (as of 5/1/14)		
Outstanding General Obligation Debt	$ 26,910,000	
The Bonds(2)	13,945,000	
The Certificates(2)	2,000,000	
City Funded Debt Payable From Ad Valorem Taxes		$ 42,855,000
Less: Self Supporting Debt		
Series 2011 General Obligation Refunding Bonds(3)		$ 5,925,000
Net General Obligation Debt Payable from Ad Valorem Taxes		$ 36,930,000
General Obligation Interest and Sinking Fund (as of 5/1/14)		$ 276,476
Ratio Gross General Obligation Tax Debt to Taxable Assessed Valuation		1.114%
Ratio Net General Obligation Tax Debt to Taxable Assessed Valuation		0.960%

2014 Estimated Population - 28,800

Per Capita Taxable Assessed Valuation - $133,521

Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $1,282

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(1) Preliminary 2014/2015 valuation provided by the Dallas Central Appraisal District. Preliminary valuation for 2014/2015 is not final and for illustrative purposes only, and is subject to losses from protests. Valuation is expected to be certified by the Dallas Central Appraisal District by July 25, 2014.

(2) Preliminary, subject to change.

(3) This debt consists of General Obligation Refunding Bonds, Taxable Series 2011, which are self-supporting based upon amounts received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P., with respect to the Dallas Stars Ice Skating facility located in the City. Payments under the Lease are not pledged to the payment of the bonds. If the City determines not to use payments under the Lease, or if such amounts are insufficient to pay debt service on the bonds, the City will be required to assess an ad valorem tax to pay such obligations. See "Table 10 – Computation of Self-Supporting Debt".

TABLE 1(a) - ADDITIONAL DEBT LIABILITIES

Please refer to "Pension Fund", page 26 for a complete description of the City's pension and other post-employment benefit liabilities. Additional information with regard to the City's liability is also available via the TMRS website at www.tmrs.org.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2014		2013		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 1,167,517,830	24.20%	$ 1,156,011,600	24.65%	$ 1,165,430,330	25.12%
Real, Residential, Multi-Family	259,748,470	5.38%	227,354,150	4.85%	201,978,900	4.35%
Real, Vacant Lots/Tracts	116,387,530	2.41%	111,118,590	2.37%	131,733,930	2.84%
Real, Commercial	2,095,038,740	43.43%	2,061,811,550	43.96%	2,044,454,780	44.06%
Real, Industrial	25,309,120	0.52%	23,661,060	0.50%	21,881,740	0.47%
Real, Oil, Gas and Other Mineral Reserves	1,400	0.00%	1,400	0.00%	1,400	0.00%
Real and Tangible Personal, Utilities	98,555,060	2.04%	115,624,890	2.47%	123,186,540	2.65%
Tangible Personal, Commercial	846,821,690	17.56%	806,426,340	17.19%	783,212,230	16.88%
Tangible Personal, Industrial	214,414,800	4.44%	187,934,590	4.01%	167,923,470	3.62%
Total Appraised Value Before Exemptions	$ 4,823,794,640	100.00%	$ 4,689,944,170	100.00%	$ 4,639,803,320	100.00%
Less: Total Exemptions/Reductions	978,403,023		1,001,711,549		1,008,013,466	
Taxable Assessed Value	$ 3,845,391,617		$ 3,688,232,621		$ 3,631,789,854	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2011		2010	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 1,199,294,510	24.28%	$ 1,229,960,150	22.90%
Real, Residential, Multi-Family	199,875,950	4.05%	181,554,340	3.38%
Real, Vacant Lots/Tracts	139,837,770	2.83%	155,598,070	2.90%
Real, Commercial	2,139,397,690	43.32%	2,232,389,700	41.57%
Real, Industrial	23,173,350	0.47%	27,083,770	0.50%
Real, Oil, Gas and Other Mineral Reserves	1,400	0.00%	1,400	0.00%
Real and Tangible Personal, Utilities	120,315,090	2.44%	118,802,590	2.21%
Tangible Personal, Commercial	946,479,540	19.16%	1,183,541,580	22.04%
Tangible Personal, Industrial	170,223,120	3.45%	241,329,110	4.49%
Total Appraised Value Before Exemptions	$ 4,938,598,420	100.00%	$ 5,370,260,710	100.00%
Less: Total Exemptions/Reductions	1,169,101,079		1,241,985,374	
Taxable Assessed Value	$ 3,769,497,341		$ 4,128,275,336	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	General Obligation (G.O.) Tax Debt[3]	Ratio of G.O. Tax Debt to Taxable Assessed Valuation[3]	G.O. Tax Debt Per Capita[3]
2010	28,616	$ 4,128,275,336	$ 144,265	$ 27,380,000	0.66%	$ 957
2011	28,600	3,769,497,341	131,801	24,330,000	0.65%	851
2012	28,620	3,631,789,854	126,897	21,145,000	0.58%	739
2013	28,800	3,688,232,621	128,064	29,045,000	0.79%	1,009
2014	28,800	3,845,391,617	133,521	42,855,000 [4]	1.11% [4]	1,488 [4]

(1) Based on North Central Texas Council of Governments original population estimates with the exception of 2010, which is based on the 2010 U.S. Census.
(2) As reported by the Dallas Central Appraisal District on the City's Annual State Property Tax Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt of the City (see Tables 1 and 10 for a description of the City's self-supporting debt).
(4) Includes the Obligations. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2010	$ 0.5195	$ 0.4516	$ 0.0679	$ 21,313,275	99.65%	99.54%
2011	0.5295	0.4892	0.0403	19,516,071	99.86%	99.62%
2012	0.5295	0.4873	0.0422	19,010,612	99.43%	99.46%
2013	0.5295	0.4935	0.0360	19,529,192	97.71%	97.71%
2014	0.5531	0.4987	0.0544	21,268,861	98.91% [1]	95.24% [1]

(1) Collections as of April 30, 2014.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	FYE 2013/14 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
70 Washington Street LP	Office Tower - Class A	$ 110,000,000	2.86%
Occidental Chemical Corporation	Office Tower - Class A	70,224,330	1.83%
AT&T Communications	Telecommunications/Inventory	61,680,860	1.60%
Garden Centura LP	Office Tower - Class A	60,225,000	1.57%
EOS Properties at Providence Towers	Office Tower - Class A	58,000,000	1.51%
TCI 600 Las Colinas Inc.	Office Tower - Class B	49,995,683	1.30%
Glazers Wholesale Drug Co.	Spirit and Wine Distribution Warehouse	47,371,590	1.23%
TP IP Tower III Corp	Office Tower - Class A	47,150,000	1.22%
Fenton Mercer Crossing Holding Co.	Office Tower - Class B	46,500,000	1.21%
Lakeview at Parkside	Apartment Complex	46,000,000	1.20%
		$ 597,147,463	15.53%

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (however, see "The Certificates - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY[1]

2014 Net Principal and Interest Requirements	$	2,076,873
$0.0546 Tax Rate at 99% Collection Produces	$	2,078,588
Average Annual Net Principal and Interest Requirements, 2014-2034	$	2,370,873
$0.0635 Tax Rate at 99% Collection Produces	$	2,371,722
Maximum Annual Net Principal and Interest Requirements, 2017	$	3,936,074
$0.1046 Tax Rate at 99% Collection Produces	$	3,936,374

(1) Includes the Obligations; excludes self-supporting debt. See "Table 10 – Computation of Self-Supporting Debt" for a discussion of the City's self-supporting debt. Preliminary, subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2013/14 Taxable Assessed Value	2013/14 Tax Rate	G.O. Tax Debt as of 5/1/14	Estimated % Applicable	City's Overlapping G.O. Tax Debt as of 5/1/14
Direct:					
City of Farmers Branch	$ 3,845,391,617	$ 0.5531	$ 36,930,000 [1]	100.00%	$ 36,930,000
Overlapping:					
Carrollton-Farmers Branch ISD	14,665,284,238	$ 1.3235	304,535,000	16.51%	50,278,729
Dallas County	163,548,250,000	0.2431	126,255,000	2.34%	2,954,367
Dallas County Comm College District	171,740,619,594	0.1247	339,035,000	2.34%	7,933,419
Dallas County Hospital District	165,425,088,192	0.2760	743,250,000	2.34%	17,392,050
Dallas County Schools	164,158,531,709	0.0100	61,595,000	2.34%	1,441,323
Dallas Independent School District	80,040,860,095	1.2820	2,420,875,000	1.85%	44,786,188
Valwood Improvement Authority	1,567,287,463	0.2900	8,433,083	35.25%	2,972,662
Total			$ 4,040,908,083		$ 164,688,737

Total Direct and Overlapping G. O. Tax Debt	$ 164,688,737
Ratio of Direct and Overlapping G. O. Tax Debt to Taxable Assessed Valuation	4.28%
Per Capita Direct and Overlapping G. O. Tax Debt	$ 5,718

(1) Excludes self-supporting debt. Includes the Obligations. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt[1] Principal	Outstanding Debt[1] Interest	Outstanding Debt[1] Total	The Bonds[2] Principal	The Bonds[2] Interest	The Certificates[3] Principal	The Certificates[3] Interest	Total Outstanding Debt	Less: Self-Supporting Debt[4]	Net Debt Service Requirements	% of Principal Retired
2014	$ 2,135,000	$ 993,079	$ 3,128,079	$ -	$ -	$ -	$ -	$ 3,128,079	$ 1,051,206	$ 2,076,873	
2015	1,745,000	938,429	2,683,429	1,145,000	474,421	180,000	43,770	4,526,619	596,436	3,930,183	
2016	1,800,000	887,686	2,687,686	1,175,000	444,000	185,000	39,994	4,531,680	600,171	3,931,509	
2017	1,855,000	830,213	2,685,213	1,220,000	401,975	190,000	36,244	4,533,431	597,358	3,936,074	
2018	1,915,000	765,972	2,680,972	1,275,000	345,700	195,000	32,394	4,529,065	597,937	3,931,128	33.37%
2019	1,990,000	695,903	2,685,903	445,000	309,375	195,000	28,494	3,663,771	601,833	3,061,939	
2020	2,070,000	620,212	2,690,212	455,000	300,375	200,000	24,544	3,670,130	604,017	3,066,114	
2021	2,150,000	539,313	2,689,313	465,000	291,175	205,000	20,366	3,670,853	604,356	3,066,497	
2022	2,235,000	453,933	2,688,933	475,000	279,400	210,000	15,694	3,669,027	603,145	3,065,882	
2023	2,320,000	364,245	2,684,245	490,000	264,925	215,000	9,975	3,664,145	600,411	3,063,734	64.76%
2024	2,085,000	271,893	2,356,893	505,000	250,000	225,000	3,375	3,340,268	601,146	2,739,122	
2025	1,230,000	206,188	1,436,188	525,000	231,925	-	-	2,193,113	599,900	1,593,213	
2026	1,280,000	161,238	1,441,238	550,000	210,425	-	-	2,201,663	601,800	1,599,863	
2027	710,000	126,838	836,838	565,000	190,950	-	-	1,592,788	-	1,592,788	
2028	730,000	103,550	833,550	585,000	170,775	-	-	1,589,325	-	1,589,325	84.74%
2029	755,000	79,000	834,000	615,000	146,775	-	-	1,595,775	-	1,595,775	
2030	790,000	52,944	842,944	640,000	121,675	-	-	1,604,619	-	1,604,619	
2031	405,000	33,538	438,538	665,000	95,575	-	-	1,199,113	-	1,199,113	
2032	415,000	20,719	435,719	690,000	68,475	-	-	1,194,194	-	1,194,194	
2033	430,000	6,988	436,988	715,000	40,375	-	-	1,192,363	-	1,192,363	98.34%
2034	-	-	-	745,000	13,038	-	-	758,038	-	758,038	100.00%
	$ 29,045,000	$ 8,151,876	$ 37,196,876	$ 13,945,000	$ 4,651,333	$ 2,000,000	$ 254,848	$ 58,048,057	$ 8,259,715	$ 49,788,342	

(1) "Outstanding Debt" does not include lease/purchase obligations.
(2) Average life of the Bonds – 9.062 years. Interest calculated at an average rate of 3.022% for purposes of illustration. Preliminary, subject to change.
(3) Average life of the Certificates – 5.190 years. Interest calculated at an average rate of 1.994% for purposes of illustration. Preliminary, subject to change.
(4) See "Table 10 – Computation of Self-Supporting Debt" for a discussion of the City's self-supporting debt.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-14		$ 3,128,079
Interest and Sinking Fund, 9-30-13	$ 243,741	
Budgeted Interest and Sinking Fund Tax Levy	2,122,000	
Transfer for Hotel Occupancy Tax Debt Service (Series 2010 Bonds)	455,600	
Transfer for Tax and Revenue Debt Service	602,200	3,423,541
Estimated Balance, 9-30-14		$ 295,462

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

Fiscal Year 2013 Stars Center Revenues(1)	$ 663,000
Less: Requirements for the Taxable Series 2011 Bonds	600,644
Balance Available for Other Purposes	$ 62,357
Fiscal Year 2013 Hotel/Motel Occupancy Tax Revenues(2)	$ 2,507,000
Less: Requirements for the Series 2010 Bonds	450,563
Balance Available for Other Purposes	$ 2,056,438
Percentage of General Obligation Debt Self-Supporting	100.00%

(1) The General Obligation Refunding Bonds, Taxable Series 2011 refunded the Combination Tax and Revenue Certificates of Obligation, Taxable Series 2004 which were self-supporting general obligation debt based upon amounts received under the terms of a Ground Lease Agreement (the "Lease") between the City and the lessee, the Dallas Stars L.P. (the "Dallas Stars"), which Lease relates to the community-style recreational ice-skating and conference facility financed in part with the proceeds of the Series 2004 Taxable Certificates. The obligation of the Dallas Stars to make lease payments to the City to support the payment of the bonds is dependent on the satisfaction of certain ongoing requirements in the Lease. The City currently transfers Lease payments to the debt service fund to pay debt service on the bonds and anticipates it will continue to do so. If the City discontinues such transfers, the City will be required to assess an ad valorem tax for the payment of the Taxable Series 2011 Bonds.

(2) The City's General Obligation Refunding and Improvement Bonds, Series 2010 refunded a portion of the City's Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999 (the "Series 1999 Certificates"). The Series 1999 Certificates were originally secured by a pledge of both ad valorem taxes and a portion of the receipts of the City's 7% hotel occupancy tax collected by the City for the promotion of tourism in the City. The Series 2010 Bonds are secured solely by a pledge of ad valorem taxes, but the City transfers a portion of the City's 7% hotel occupancy tax collections to the debt service fund for the Series 2010 Bonds on an annual basis to pay the debt service attributable to the Series 1999 Certificates refunded by the Series 2010 Bonds. The City transferred hotel occupancy tax revenues in an amount sufficient to pay the February 15, 2014 debt service payment for such self-supporting debt. The February 15, 2014 debt service payment was the last debt service payment for the Series 2010 Bonds deemed to be "self-supporting" and therefore, the City does not currently expect to make additional transfers in the future from hotel occupancy tax revenues to pay general obligation debt.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Streets	5/10/2014	$ 23,500,000	$ -	$ 14,500,000	$ 9,000,000
		$ 23,500,000	$ -	$ 14,500,000	$ 9,000,000

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next 12 months.

TABLE 12 – OTHER OBLIGATIONS

As of April 30, 2014 the City has no other outstanding obligations payable from ad valorem taxes.

PENSION FUND . . . The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 849 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are 200% of the employee's accumulated contributions. Beginning in 1996 the City granted, on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically computing the member's account balance by assuming that the current member deposit rate of 7% and City matching ratio of 2 to 1 has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the 2 to 1 City match currently in effect. The resulting sum is then compared to the member's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Additionally initiated in 1996, the City provides, on an annually repeating basis, increases for retirees equal to 70% of the change in the Consumer Price Index (CPI).

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Funding Policy - The contribution rate for employees is 7% of employee gross earnings and the City matching ratio is 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined by the actuary annually, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. During the period from January 1, 2009 through September 30, 2011, the City of Farmers Branch elected to contribute a minimum amount equal to its annual required contribution ("ARC") less a "phase in" of the increase from the change to the Projected Unit Credit cost method in the 2007 valuation. This caused the City to have an actual contribution less than the actuarially determined ARC, and therefore to accrue a net pension obligation on its balance sheet. In subsequent years, this net pension obligation will be amortized using the same amortization factor used to determine the ARC for a given year. The phase in period was due to last eight years from fiscal year 2009 through fiscal year 2016; however, changes in state law have allowed the City to begin paying the full rate starting with the beginning of fiscal year 2012 on October 1, 2011, thereby eliminating additional "phase in" rate steps.

The annual pension cost ("APC") and net pension obligation ("NPO") are as follows:

Annual required contribution (ARC)	$ 4,906,741
Interest on net pension obligation (NPO)	222,774
Adjustment to the ARC	(195,725)
Annual pension cost (APC)	$ 4,933,790
Contributions made	4,906,741
Increase in net pension obligation	$ 27,049
Net pension obligation, beginning of year	3,182,487
Net pension obligation, end of year	$ 3,209,536

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2011	$ 5,893,164	$ 4,877,054	83%	$ 3,151,514
2012	4,794,527	4,763,554	100%	3,182,487
2013	4,933,790	4,906,741	100%	3,209,536

Funded Status and Funding Progress – The funded status as of December 31, 2012, the most recent actuarial date, is presented as follows:

Texas Municipal Retirement System Analysis of Funding Progress

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2013	12/31/2012	$ 176,561,067	$ 204,295,430	$ 27,734,363	86.4%	$ 24,893,319	111.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements in Exhibit E-1, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The ARC for the plan was determined as part of the December 31, 2012 actuarial valuation using the following methods and assumptions:

Actuarial Assumptions 2013

Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25.3 Years - Closed Period
Amortization Period for new Gaines/Losses	-	30 years
Asset Valuation Method	-	10-year Smoothed Market
Investment Rate of Return	-	7.0%
Projected Salary Increases	-	Varies by age and service
Includes Inflation At	-	3.0%
Cost-of-Living Adjustments	-	2.1% (3.0% CPI)

Plan Information - The City is one of 849 municipalities having the benefit administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2012 valuations are contained in the 2012 TMRS Comprehensive Annual Financial Report that includes the financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.org.

On October 9, 2013, subsequent to the City's year end, the TMRS Board adopted two significant changes that will affect future actuarial values:

(a) Update to the mortality table used to determine the annuity purchase rate – The change in mortality tables was necessary to reflect the increasing life expectancy of plan members and retirees. Effective January 1, 2015, this change will affect future retirees only and will be phased in over thirteen years.

(b) Change from the Projected Unit Credit to the Entry Age Normal actuarial method – Entry Age Normal (EAN) is the most widely used actuarial method by public sector pension plans and will be required by GAAP beginning in fiscal year 2015 for determination of the Net Pension Liability for financial reporting purposes. Changing the EAN for funding purposes enables TMRS to more closely coordinate with the financial reporting requirements.

Both changes will be reflected in the December 31, 2013 valuation. Adoption of the updated mortality tables for determining the annuity purchase rate will slow the growth of the annuities of future retirees resulting in a reduction of the accrued actuarial liability. Adoption of EAN will produce higher accrued actuarial liabilities. While the combined impact of these two changes will partially offset, the City is expecting an overall reduction in funded status for the December 2013 actuarial valuation.

Other Post-Employment Benefits

Plan Description – The City administers a single-employer defined contribution healthcare plan (the "Retiree Benefit Plan"). The plan contributes to postemployment healthcare benefits through the City's group health insurance plan, which covers both active and retired members. Contributions are established through City policy as approved by City Council. The Retiree Benefit Plan does not issue a publicly available financial report.

The eligibility requirements are:

- Must be a current, full-time employee hired prior to January 1, 2007;
- Must have worked for the City for at least ten years which do not need to be concurrent;
- Must meet the eligibility requirements of the TMRS and retire from the City; and,
- Must be on the City's health plan at the time of retirement, and for dependents to be carried on the health plan, they must also be on the plan at that time.

Funding Policy – Contribution requirements are set by City policy as approved by City Council. The City contributes the cost of the "employee only" premium for the City's base plan, $500 annually to a health savings account for those retirees selecting the high deductible health insurance plans, and the full premium for life insurance coverage of $12,000. The eligible City retiree receives City paid coverage until age 65. In fiscal year 2013, the City contributed $955,586 to the plan. Plan members receiving benefits contribute the additional cost above the "employee only" base medical premium and the full group premium for dental or vision plans selected. In fiscal year 2013, total member contributions were $203,703.

Annual OPEB Cost and Net OPEB obligation – The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost of the fiscal year ending September 30, 2013 is as follows:

Annual required contribution (ARC)	$ 1,005,110
Interest on net OPEB obligation	48,545
Adjustment to the ARC	(44,976)
Annual OPEB cost	$ 1,008,679
Contributions made	955,586
Increase in net OPEB obligation	$ 53,093
Net OPEB obligation, beginning of year	1,078,770
Net OPEB obligation, end of year	$ 1,131,863

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The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2013 and the preceding two years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 816,300	$ 270,927	33%	$ 1,024,602
2012	345,046	290,878	84%	1,078,770
2013	1,008,679	955,586	95%	1,131,863

Funded Status – The funded status of the City's retiree benefit plan under GASB Statement No. 45 as of December 31, 2012 is as follows:

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ration	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2013	12/31/2012	$ -	$ 13,236,863	$ 13,236,863	0.0%	$ 15,812,192	83.7%

Under the reporting parameters, the City's retiree benefit plan is 0.0% funded with an estimated actuarial liability exceeding actuarial assets by $13,236,863 at December 31, 2012. As of the most recent valuation, the ratio of unfunded actuarial accrued liability to annual covered payroll is 83.7%.

Actuarial Methods and Assumptions – The projected unit credit actuarial cost method is used to calculate the GASB ARC for the City's retiree benefit plan. Using the plan benefits, the present health premiums, and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year, open amortization
Payroll growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.50% declining to an ultimate rate of 4.50% after 8 years

For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Notes #2 and #3.

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FINANCIAL INFORMATION

TABLE 13 - CHANGES IN NET POSITION

	Governmental Activities 2013	Governmental Activities 2012	Governmental Activities 2011[1]	Governmental Activities 2010[1]	Governmental Activities 2009[1]
REVENUES:					
Program Revenues:					
Charges for services	$ 8,923,838	$ 8,654,848	$ 9,077,248	$ 8,536,524	$ 7,535,552
Operating grants and contributions	781,993	310,341	151,228	286,011	134,927
Capital grants and contributions	303,998	709,138	720,581	1,460,179	292,271
General Revenues:					
Taxes					
Property taxes, levied for general purposes	17,707,657	17,284,378	18,109,178	18,311,639	17,087,985
Property taxes, levied for debt service	1,284,446	1,506,258	1,474,045	2,731,178	2,147,917
Sales and use taxes	13,689,917	12,750,809	11,988,696	10,890,296	11,912,047
Hotel/motel taxes	2,253,459	1,932,530	2,017,819	1,821,619	1,974,308
Franchise taxes	4,420,712	4,185,655	4,695,310	4,221,551	4,262,868
Tax increment financing	797,278	1,005,642	1,337,358	1,606,497	2,095,651
Investment income	1,386,221	1,341,782	1,379,360	1,777,261	1,998,392
Miscellaneous	4,862	536,320	56,546	20,953	36,787
Total Revenues	$ 51,554,381	$ 50,217,701	$ 51,007,369	$ 51,663,708	$ 49,478,705
EXPENSES:					
General government	10,914,452	11,884,776	11,808,807	16,076,156	11,451,397
Public safety	22,772,965	21,414,818	22,439,143	22,032,570	21,375,045
Public works	8,875,224	8,509,565	8,562,557	9,739,019	16,056,692
Culture and recreation	12,739,313	12,866,193	12,824,261	13,335,886	12,838,761
Interest on long-term debt	1,887,714	1,775,374	1,821,645	1,925,378	1,662,921
Unallocated depreciation	126,464	605,266	126,464	129,904	32,530
Total Expenditures	$ 57,316,132	$ 57,055,992	$ 57,582,877	$ 63,238,913	$ 63,417,346
Increase (decrease) in net position before transfers	$ (5,761,751)	$ (6,838,291)	$ (6,575,508)	$ (11,575,205)	$ (13,938,641)
Transfers	3,073,500	3,388,500	4,211,400	2,818,200	3,350,300
Increase (decrease) in net position	$ (2,688,251)	$ (3,449,791)	$ (2,364,108)	$ (8,757,005)	$ (10,588,341)
Beginning net position	90,880,898	94,330,689	96,694,797	105,451,802	116,040,143
Ending net position	$ 88,192,647	$ 90,880,898	$ 94,330,689	$ 96,694,797	$ 105,451,802

(1) Restated with implementation of GASB Statements 51, 61 and 65.

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TABLE 13 -A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2013	2012	2011	2010	2009
Revenues:					
Property, Sales and Franchise Taxes	$ 35,934,981	$ 34,153,059	$ 34,728,480	$ 33,568,755	$ 33,345,154
Licenses and Permits	1,015,017	1,012,913	886,511	559,979	485,241
Charges for Services	4,539,757	4,624,287	4,780,573	4,803,469	4,360,812
Fine and Forfeitures	2,121,697	2,184,699	2,418,042	2,509,385	2,115,780
Investment Income	600,333	587,856	559,534	526,954	661,046
Intergovernmental	111,456	-	-	-	-
Miscellaneous	85,025	56,202	63,635	63,759	78,500
Total Revenues	$ 44,408,266	$ 42,619,016	$ 43,436,775	$ 42,032,301	$ 41,046,533
Expenditures:					
Current:					
General Government	$ 10,538,652	$ 11,287,146	$ 9,572,919	$ 10,020,465	$ 9,801,506
Public Safety	21,640,592	20,609,761	19,899,281	19,678,114	19,983,636
Public Works	5,717,415	5,665,710	5,653,112	6,383,693	6,857,651
Culture and Recreation	10,678,436	10,526,017	9,894,306	10,022,539	10,043,451
Loss Due to Decline in Market Value	-	95,459	48,344	-	-
Total Expenditures	$ 48,575,095	$ 48,184,093	$ 45,067,962	$ 46,104,811	$ 46,686,244
Deficiency of Revenues Under Expenditures	$ (4,166,829)	$ (5,565,077)	$ (1,631,187)	$ (4,072,510)	$ (5,639,711)
Other Financing Sources (Uses):					
Transfers In	$ 3,777,500	$ 3,949,773	$ 4,157,478	$ 4,172,968	$ 5,329,790
Transfers Out	-	-	-	(362,800)	-
Sale of Capital Assets/Insurance Recoveries	797,381	1,569,531	491,084	61,517	97,485
Total Other Financing Sources (Uses)	$ 4,574,881	$ 5,519,304	$ 4,648,562	$ 3,871,685	$ 5,427,275
Net Change in Fund Balance	$ 408,052	$ (45,773)	$ 3,017,375	$ (200,825)	$ (212,436)
Fund Balances, Beginning of Year	$ 11,599,826	$ 11,645,599	$ 8,628,224	$ 8,829,049	$ 9,041,485
Fund Balances, End of Year	$ 12,007,878	$ 11,599,826	$ 11,645,599	$ 8,628,224	$ 8,829,049

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TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City (which, combined with sales taxes levied by other governmental entities, total 8.25%); the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2010	$ 10,890,296	51.10%	$ 0.2638	$ 380.57
2011	11,988,696	61.43%	0.3180	419.19
2012	12,750,809	67.07%	0.3511	445.52
2013	13,689,917	70.10%	0.3712	475.34
2014	7,621,882 (1)	35.84%	0.1982	264.65

(1) Collections as of April 30, 2014, which represents a 45 day lag.

FINANCIAL POLICIES

Basis of Presentation . . . While separate government-wide financial statements (based on the City as a whole) and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

The fund financial statements provide information about the City's funds, including its blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

> The *general fund* is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.
>
> The *landfill closure/postclosure fund* is used to account for future landfill costs.
>
> The *stars center fund* is used to account for Stars/Conference Center rental revenue and transfers to debt service for bond payments.
>
> The *aquatic center* bond fund is used to design, construct, and equip a new aquatics facility.

The City reports the following major proprietary fund:

> The *water and sewer fund* is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City reports the following internal service funds:

> The *internal service funds* are used to account for facilities services, equipment services and the City's workers' compensation and medical self-insurance programs for the departments of the City on a cost reimbursement basis.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Measurement Focus and Basis of Accounting . . . The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to the type of resources being measured such as current financial resources or economic resources. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as an other financing source.

Property, franchise, sales and hotel occupancy taxes, and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when the government receives cash.

Fund Balance/Operating Position Concepts . . . In the General Fund, the City will strive to maintain an unassigned fund balance to be used for unanticipated emergencies within a target range of approximately 15% (low end) and 20% (high-end) of the actual GAAP basis expenditures and other financing sources and uses. A net current assets balance of $2.0 million is targeted for the Water & Sewer Fund. "Net current assets" is an amount derived by subtracting current liabilities from current assets. This amount is the best approximation in an enterprise type fund of spendable resources, which are available for appropriation. These monies will be used to avoid cash-flow interruptions, generate interest income, reduce the need for short-term borrowing, and assist in maintaining an investment-grade rating. Each fund may borrow internally from other funds to provide for cash flow requirements. These loans will be on a short-term basis. Funds of the City will not be operated on a deficit basis.

Debt Service . . . The City's goal for debt service is to limit general obligation annual debt service requirements to 20 percent of general governmental expenditures.

Use of Bond Proceeds, Grants, etc . . . Long-term debt shall not be used for operating purposes. The life of bonds shall not exceed the useful life of the projects.

Budgetary Procedures . . .The City Council follow these procedures in establishing the budgets reflected in the general purpose financial statements:

1. By August 1 of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.

2. Public hearings are conducted, at which time all interested persons' comments concerning the budget are heard.

3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.

4. Once a budget is approved, the City Manager is authorized to transfer unencumbered appropriations within a department, but not between funds. City Council approval is necessary for transfers of unencumbered appropriations between departments, functions and funds.

5. Annual operating budgets are prepared on a budgetary basis for all governmental funds, whereby year-end encumbrances are recognized as expenditures in the current year.

6. Budgetary data for the Capital Projects Funds are not presented in the City's combined financial statements, as such funds are budgeted over the life of the respective project and not on an annual basis.

7. Budgeted amounts are as amended by the City Council. Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

8. Since encumbrances are included in budgeted expenditures the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual are reported using both the budget basis of accounting and the GAAP (Generally Accepted Accounting Principles) basis of accounting.

INVESTMENTS

The City invests its investable funds in investments authorized by State law in accordance with investment policies approved by the City Council of the City. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under current State law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City and held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar-weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually, review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 15 - CURRENT INVESTMENTS

As of April 30, 2014, the City's investable funds were invested in the following categories:

Description	% of Portfolio	Purchase Price	Market Value
Federal National Mortgage Association	15.51%	$ 7,607,002	$ 7,555,441
Federal Home Loan Mortgage Corporation	11.56%	5,709,819	5,632,910
Federal Home Loan Bank	25.00%	12,190,350	12,177,752
Municipal Obligations	9.03%	4,463,143	4,398,230
TexPool	0.21%	100,292	100,292
Certificates of Deposit	29.90%	14,565,000	14,565,000
Collateralized Depository	8.80%	4,285,015	4,285,015
	100.00%	$ 48,920,621	$ 48,714,640

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bracewell & Giuliani LLP, Bond Counsel, under existing law (i) interest on the Obligations is excludable from gross income for federal income tax purposes and (ii) the Obligations are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and, as such, interest on the Obligations is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinances that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Obligations for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Financial Advisor and the Initial Purchasers of the Obligations with respect to matters solely within the knowledge of the City, the City’s Financial Advisor and the Initial Purchasers of the Obligations, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinances or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Obligations could become includable in gross income from the date of delivery of the Obligations, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Obligations, is included in a corporation’s “adjusted current earnings,” ownership of the Obligations could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Obligations.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Obligations. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Obligations should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Obligations, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . . The issue price of all or a portion of the Obligations may exceed the stated redemption price payable at maturity of such Obligations. Such Obligations (the "Premium Obligations") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Obligation in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Obligation in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Obligation by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined using the yield to maturity on the Premium Obligation based on the initial offering price of such Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Obligation and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Obligations.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT OBLIGATIONS . . . The issue price of all or a portion of the Obligations may be less than the stated redemption price payable at maturity of such Obligations (the "Original Issue Discount Obligations"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public offering of the Obligations. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Initial Purchasers for the Obligations have purchased the Obligations for contemporaneous sale to the public and (ii) all of the Original Issue Discount Obligations have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Obligations will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Obligation accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Obligations.

TAX LEGISLATIVE CHANGES . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Obligations. Prospective purchasers of the Obligations should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations unless the City amends or repeals the agreement as described below. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be made available to investors by the MSRB through its Electronic Municipal Market Access System ("EMMA") free of charge at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data of the type described in the preceding paragraph by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS. . . The City shall notify the MSRB, in a timely manner not in excess of ten (10) Business Days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Obligations, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City[(1)]; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

AVAILABILITY OF INFORMATION. . . All information and documentation filings required to be made by the City in accordance with its undertaking made for the Obligations will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

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(1) For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the previous five years, the City has substantially complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Obligations and the presently outstanding tax-supported debt of the City are rated "AA+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA+" by Fitch Ratings, Inc. ("Fitch"), without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

Villas at Parkside Partners, et al., v. The City of Farmers Branch, Texas, Case No. 10-10751 in the United States Court of Appeals for the Fifth Circuit (original case is Civil Action No. 3:08-CV-1551-B (consolidated with Civil Action No. 3:08-CV-1615-B), United States District Court, Northern District of Texas, Dallas Division).

Plaintiff apartment owners sued the City of Farmers Branch in September 2008, challenging the constitutionality of Ordinance 2952, which the City adopted on January 22, 2008. Ordinance No. 2952 established a residential licensing program making illegal aliens ineligible to rent housing in the City. On March 25, 2010, the Court entered its Final Judgment, which permanently enjoined the City from effectuating or enforcing Ordinance No. 2952. Plaintiffs are seeking attorneys' fees pursuant to 42 U.S. C. § 1988. On March 21, 2012, a panel of the U.S. Court of Appeals for the Fifth Circuit affirmed the judgment of the trial court. However, the Fifth Circuit granted en banc review of the case on July 31, 2012. Oral arguments before the entire Fifth Circuit Court of Appeals was held on September 9, 2012. The Fifth Circuit did not issue a new opinion. Thereafter the City sought review by the US Supreme Court. On March 3, 2014 the US Supreme Court refused to consider the case. The parties have resolved through mediation the amount of attorney fees to be paid by the City to the Plaintiffs. All attorney fees have been paid and the case has been finalized.

Yuliana Luz Chavez v. The City of Farmers Branch, No. DC-14-01909 in the 14th Judicial District Court of Dallas County, Texas.

This is a negligence claim arising from a motor vehicle accident in which Ms. Chavez alleges that although she stopped and pulled her vehicle as far as possible to the side of the road, yielding to the siren and lights of the City's emergency vehicle, the City's vehicle, driven by an employee, collided with her vehicle. Ms. Chavez seeks property damage in the amount of $3,400.00 as well as damages for past and future medical care, physical pain and suffering, physical impairment, loss of earnings and lost earning capacity, and mental anguish. The case has been assigned by TML-IRP to outside defense counsel. No discovery has yet been conducted and it is, therefore, not possible to assess the likelihood of an adverse judgment nor the potential range thereof.

Mark Baker v. City of Farmers Branch, Texas, et al., Appeal No. 05-13-01174-CV in the Fifth Court of Appeals at Dallas, Texas.

Farmers Branch resident Mark Baker filed a petition seeking injunctive and declaratory relief on July 25, 2013. In the underlying lawsuit, Baker sought (1) a declaratory judgment that the City of Farmer Branch's notice of its July 16, 2013 meeting violated the Texas Open Meetings Act because while the notice specifically identified as one of the subjects of the meeting the City's pending appeal of a Voting Rights Act lawsuit, identifying it by case name and cause number, the notice did not specifically state that the City would consider settlement, which would include dismissal, of the City's appeal and (2) an injunction requiring the City to request that the federal Fifth Court of Appeals recall its mandate dismissing the City's appeal. The matter was heard by the trial court on August 6, 2013, at the conclusion of which the trial court determined and held as a matter of law that the City's notice sufficiently described the subject of the meeting and, therefore, did not violate the Texas Open Meetings Act. In a final judgment entered August 16, 2013, the trial court denied all relief requested by Mr. Baker. Mr. Baker filed an appeal which is set to be heard by the Appellate Court on May 21, 2014. While Mr. Baker does not seek monetary damages, he does seek recovery of his attorney's fees. There has been no expert testimony on fees, given the fact that the trial court ruled in the City's favor.

Other than the foregoing matters, it is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse impact upon the City or its operations

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

The sale of the Obligations has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Obligation and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing including alternative minimum tax consequences for corporations. See "Tax Matters" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement or Notice of Sale, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fees for services rendered with respect to the sale of the Obligations are contingent upon the issuance and delivery of the Obligations. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the City accepted the bid of _______________________ (the “Initial Purchaser”) to purchase the Bonds at the prices shown on page 2 of the Official Statement. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

After requesting competitive bids for the Certificates, the City accepted the bid of _______________________ (the “Initial Purchaser”) to purchase the Certificates at the prices shown on page 4 of the Official Statement. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Obligations, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Obligations and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The financial data and other information continued in this Official Statement have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinances authorizing the issuance of the Obligations will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Initial Purchaser.

____
Mayor
City of Farmers Branch, Texas

ATTEST:

____
City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Farmers Branch (the "City") is conveniently located on Dallas' northern border, in the heart of an 11-county area that has emerged as a premier commercial, financial and trading center. This favorable business climate is driven by the City's location, as it is bordered by two major interstate highways and the Dallas North Tollway, and is minutes from the Dallas/Fort Worth International Airport, Dallas Love Field, and downtown Dallas. The City's broadly diversified economic base supports home furnishings, financial, high-tech, insurance, and telecommunications industries and includes many of the nation's foremost businesses. Some of the reasons that these enterprises chose the City as a local or regional business center include: the City's strategic Southwest location, convenience to local and worldwide transportation, low municipal tax rate, abundant labor, educational and cultural resources, and overall quality of life.

Three creeks traverse the City and there are more than 20 parks filled with picnic areas, bridges, playgrounds, walking areas and natural surroundings dependent upon where a family resides. Farmers Branch has preserved history in its 22-acre Historical Park which takes visitors on a "walk back through time" to the days of the early settlers in the 1800s. The Historical Park is also the site for many of the City's special events and may be reserved for weddings, parties, family reunions or other special gatherings.

EDUCATION

Education for the school age children in Farmers Branch is provided by two different school districts dependent upon where the family resides. The City is served by the Carrollton-Farmers Branch and Dallas Independent School Districts. The majority of the City's residents are part of the Carrollton-Farmers Branch Independent School District, which encompasses a 53.42 square mile area and provides a quality educational system that believes in the importance of a strong community-school relationship. This belief combined with a strong financial base makes the Carrollton-Farmers Branch Independent School District a star attraction in the Dallas-Fort Worth Metroplex. The District created the R.L. Turner High School Academies for Biomedical Professions and Media Arts & Technology to serve growing demand for these professions.

Nine major Texas universities and colleges are located within easy driving distance of Farmers Branch. They include Brookhaven Community College, the University of Dallas, Texas Christian University, Texas Woman's University, Southern Methodist University, the University of North Texas, the University of Texas at Arlington, the University of Texas Southwest Medical Center, and the University of Texas at Dallas.

PRINCIPAL EMPLOYERS

Employer	Product/Service	Number of Employees
JPMorgan Chase Investment Services	Financial Services	2,390
IBM Corporation	Office Products	1,870
Federal Government - Internal Revenue Service	Government	1,200
GEICO	Insurance	1,088
Telvista	Telecommunications	1,000
TD Industries	Mechanical Construction	900
Haggar Clothing Company	Clothing Manufacturer	750
Monitronics International Inc.	Security Systems Alarm Monitoring	700
Celanese Corporation	Global Technology/Specialty	650
Encore Enterprises, Inc.	Real Estate and Property Management Services	650
Glazer's Wholesale Drug Company	Spirits and Wine Wholesale Distribution	650

EMPLOYMENT

Unemployment figures in Farmers Branch are as follows:

	April	Annual Averages				
	2014	2013	2012	2011	2010	2009
Civilian Labor Force	15,637	15,537	15,293	15,324	15,199	13,712
Total Employed	14,865	14,632	14,285	14,184	13,997	12,600
Total Unemployed	773	905	1,008	1,140	1,202	1,064
Unemployment Rate	4.9%	5.8%	6.6%	7.4%	7.9%	7.8%

Source: Texas Workforce Commission.

BUILDING PERMITS

Fiscal Year	Residential Number of Permits	Residential Value	Commercial Number of Permits	Commercial Value	Total Number of Permits	Total Value
2010	171	$ 7,233,754	166	$ 29,471,193	337	$ 36,704,947
2011	213	5,358,024	212	55,164,754	425	60,522,778
2012	227	14,178,966	257	89,920,524	484	104,099,490
2013	217	12,043,400	231	71,364,637	448	83,408,037
2014 [(1)]	128	7,359,049	128	22,336,085	256	29,695,134

(1) Permits through April 11, 2014.

APPENDIX B

EXCERPTS FROM THE

CITY OF FARMERS BRANCH, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2013

The information contained in this Appendix consists of excerpts from the City of Farmers Branch, Texas Annual Financial Report for the Year Ended September 30, 2013, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
The City of Farmers Branch, Texas

Report on the financial statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmers Branch, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmers Branch, Texas as of September 30, 2013, and the respective changes in financial

Grant Thornton

position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the major special revenue funds-Landfill Closure/Post-Closure Fund and Stars Center Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 and the Required Supplementary Information on page 45 (Texas Municipal Retirement System Schedule of Funding Progress and Retiree Benefit Plan Schedule of Funding Progress) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory section, statistical section, and continuing financial disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

GRANT THORNTON LLP

Dallas, Texas
January 14, 2014

As management of the City of Farmers Branch (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2013 by $142,775,391 (net position). The majority of the City's net position of $141,373,416 (99%) is invested in capital assets and is not available for future spending. The City's total net position decreased $3,843,441 and the unrestricted net position is a deficit of $2,191,364.

- At the close of the fiscal year ended September 30, 2013, the City's governmental funds reported combined ending fund balances of $35,034,735, an increase of $8,998,123 in comparison with the prior year. Approximately 26 percent of the combined ending fund balance, in the amount of $8,942,763, is available for use within the City's policies (unassigned fund balance). The increase in total fund balance was primarily due to the receipt of bond proceeds from debt issued during the fiscal year.

- The unassigned fund balance for the general fund was $8,942,763 or 20 percent of total general fund expenditures plus other financing sources and uses. This represents a $312,933 increase from the prior fiscal year due to improved property and sales tax revenues.

- At the end of the current fiscal year, unrestricted fund balance (the total of the *assigned* and *unassigned* components of *fund balance)* for the general fund was $11,953,924, or approximately 25 percent of total general fund expenditures.

- The City's long-term liabilities increased $8,559,330 during the current fiscal year. New debt was issued to provide for radio system upgrades and a new aquatic facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

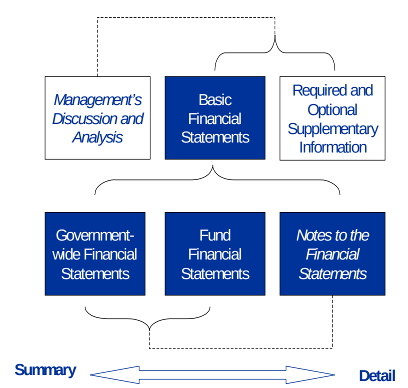
This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Required Components of City of Farmers Branch's Annual Financial Report



Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water and sewer.

The government-wide financial statements can be found in Exhibit A of this report.

Fund Financial Statements - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains 22 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, landfill closure/postclosure fund, Stars Center fund, and Aquatic Center bond fund which are considered to be major funds. Data from the other 18 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found in Exhibit B of this report.

Proprietary Funds - The City maintains two types of proprietary funds. The water and sewer fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the water and sewer fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its equipment services, workers' compensation, and health claims funds. Because these services predominantly benefit governmental rather than business-type functions they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer fund is considered a major fund of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found in Exhibit C of this report.

Notes to Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found in Exhibit D of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found in Exhibit E of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found in Exhibit F through Exhibit H of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's net position, the amount that assets and deferred outflows of resources exceeded liabilities, was $142,775,391 at the close of the most recent fiscal year.

CONDENSED NET POSITION

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 42,289,515	$ 33,678,326	$ 15,105,835	$ 16,275,004	$ 57,395,350	$ 49,953,330
Capital assets	120,857,056	122,827,726	40,742,572	40,874,322	161,599,628	163,702,048
Total assets	163,146,571	156,506,052	55,848,407	57,149,326	218,994,978	213,655,378
Total deferred outflows of resources	187,291	212,239			187,291	212,239
Noncurrent liabilities	63,392,070	54,780,684	300,357	352,413	63,692,427	55,133,097
Other liabilities	11,749,145	11,056,709	965,306	1,058,979	12,714,451	12,115,688
Total liabilities	75,141,215	65,837,393	1,265,663	1,411,392	76,406,878	67,248,785
Net position:						
Net investment in capital assets	100,736,048	101,949,868	40,637,368	40,608,870	141,373,416	142,558,738
Restricted	3,593,339	3,451,946			3,593,339	3,451,946
Unrestricted	(16,136,740)	(14,520,916)	13,945,376	15,129,064	(2,191,364)	608,148
Total net position	$ 88,192,647	$ 90,880,898	$ 54,582,744	$ 55,737,934	$ 142,775,391	$ 146,618,832

The largest portion of the City's combined net position (99%) reflects its investments in capital assets (e.g., land, buildings, equipment, intangible assets, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit (1%). This deficit does not mean the City does not have enough resources available to pay its bills next year.

The City actively manages its net position and has planned for the reduction and/or elimination of its unrestricted deficit net position in the following ways:

1) The City is planning to expand the current landfill and therefore to extend the closure period liability for 40 additional years which will reduce the $8.9 million deficit net position for landfill closure/postclosure.

2) Another major portion of the City's unrestricted deficit net position is due to approximately $7.2 million of accrued interest for developer advances. This amount may be reimbursed only from the Tax Increment Financing District No. 1 ("TIF No. 1") to the extent such funds are on deposit in the fund. Current revenue projections for this fund indicate total repayment of these advances will be unlikely. The TIF No. 1 expires December 31, 2019.

3) Options to reduce and eventually to eliminate the "other post employment benefits" (OPEB) deficit net position of approximately $1.0 million are being implemented. This includes health insurance coverage options for retirees with no implicit subsidy for the City and terminating the City contribution for employees hired after December 31, 2006.

The unrestricted net position of the business-type activities is a positive balance of $13,945,376; however, these resources cannot be used to make up a portion of the deficit in the governmental activities unrestricted net position. The City generally can only use this net position to finance continuing water and sewer operations.

Analysis of the City's Operations – During the current fiscal year, net position for governmental activities decreased $2,688,251 from the prior fiscal year for an ending balance of $88,192,647. This decrease is the result of depreciation on capital assets and increases in accrued interest for long-term debt. The net position of the business-type activities decreased $1,155,190 from the prior fiscal year for an ending balance of $54,582,744. The rates for water and sewer service were increased six percent for the upcoming fiscal year.

Current and other assets and noncurrent liabilities increased in the governmental activities due to the issuance of bonds and receipt of those bond proceeds to provide for radio system upgrades and a new aquatic facility.

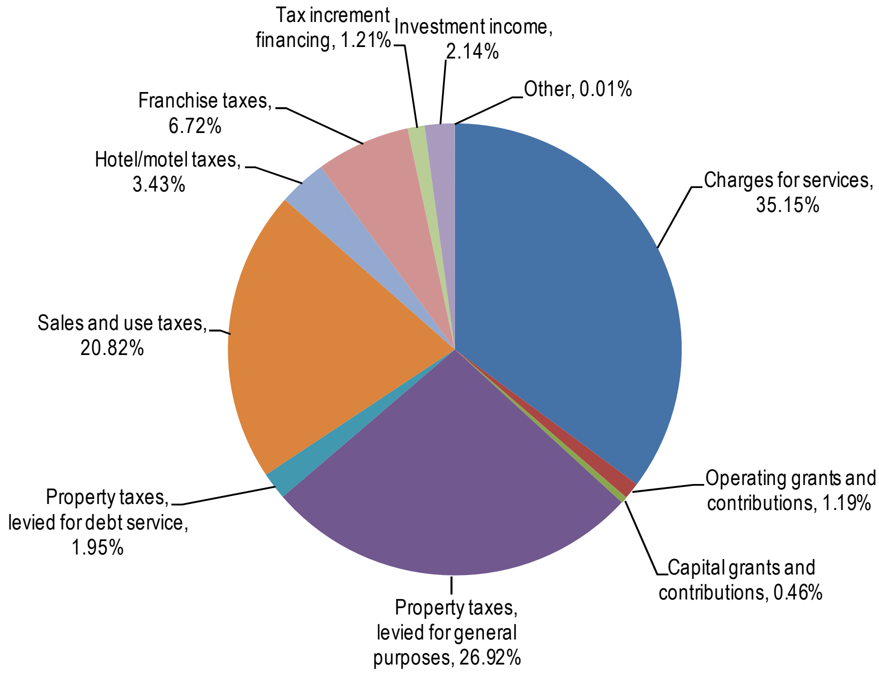
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 8,923,838	$ 8,654,848	$ 14,194,339	$ 14,059,819	$ 23,118,177	$ 22,714,667
Operating grants and contributions	781,993	310,341			781,993	310,341
Capital grants and contributions	303,998	709,138			303,998	709,138
General revenues:						
Taxes:						
Property taxes, levied for general purposes	17,707,657	17,284,378			17,707,657	17,284,378
Property taxes, levied for debt service	1,284,446	1,506,258			1,284,446	1,506,258
Sales and use taxes	13,689,917	12,750,809			13,689,917	12,750,809
Hotel/motel taxes	2,253,459	1,932,530			2,253,459	1,932,530
Franchise taxes	4,420,712	4,185,655			4,420,712	4,185,655
Tax increment financing	797,278	1,005,642			797,278	1,005,642
Investment income	1,386,221	1,341,782	20,563	33,868	1,406,784	1,375,650
Miscellaneous	4,862	536,320			4,862	536,320
Total revenues	51,554,381	50,217,701	14,214,902	14,093,687	65,769,283	64,311,388
Expenses:						
General government	10,914,452	11,884,776			10,914,452	11,884,776
Public safety	22,772,965	21,414,818			22,772,965	21,414,818
Public works	8,875,224	8,509,565			8,875,224	8,509,565
Culture and recreation	12,739,313	12,866,193			12,739,313	12,866,193
Interest on long-term debt	1,887,714	1,775,374			1,887,714	1,775,374
Unallocated depreciation	126,464	605,266			126,464	605,266
Water and sewer			12,296,592	11,712,523	12,296,592	11,712,523
Total expenses	57,316,132	57,055,992	12,296,592	11,712,523	69,612,724	68,768,515
Increase (decrease) in net position before transfers	(5,761,751)	(6,838,291)	1,918,310	2,381,164	(3,843,441)	(4,457,127)
Transfers	3,073,500	3,388,500	(3,073,500)	(3,388,500)		
Increase (decrease) in net position	(2,688,251)	(3,449,791)	(1,155,190)	(1,007,336)	(3,843,441)	(4,457,127)
Net position--beginning	90,880,898	94,330,689	55,737,934	56,745,270	146,618,832	151,075,959
Net position--ending	$ 88,192,647	$ 90,880,898	$ 54,582,744	$ 55,737,934	$ 142,775,391	$146,618,832

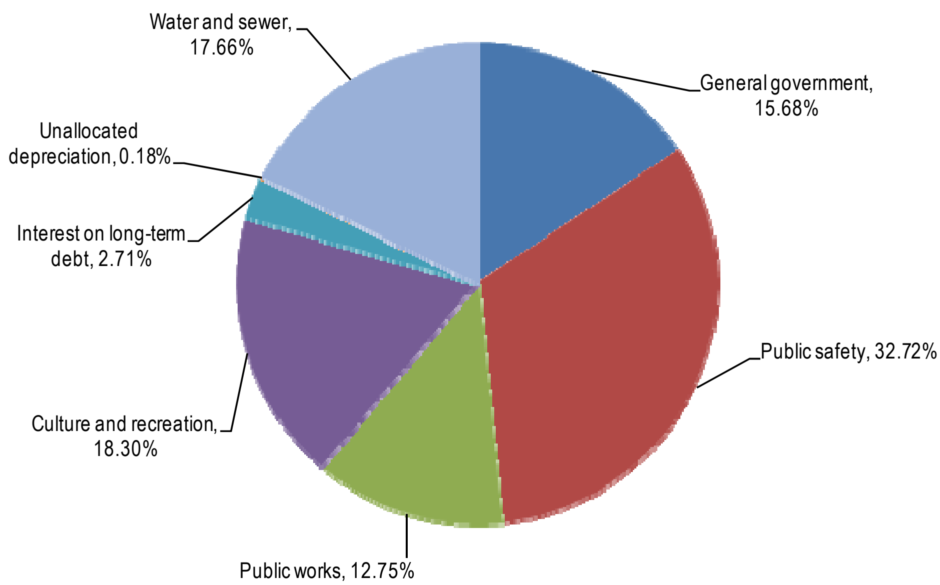
Total revenue of the governmental activities increased $1,336,680. Most of the increase in governmental revenue was from sales and use taxes which increased about $940,000. Franchise taxes increased by about $235,000 due primarily to increased gas franchise revenue. Property tax revenue increased about $200,000 due to higher valuations. The general government total expenses increased about $260,000 due primarily to increased personnel and health care costs.

Total revenue of the business-type activities increased by about $120,000. Charges for services in the business-type activities increased about $135,000 due to a three percent increase in water rates. The water and sewer expenses increased by about $585,000. The cost of sewage treatment was about $465,000 higher than the prior year.

Total Sources of Revenue



Total Expenses by Activity



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $35,034,735. Of this total, $22,579,131 is restricted due to external limitations on its use, such as by debt covenants, legal restrictions, or intention of grantors, donors, or trustees. A total of $59,579 is considered nonspendable because it has been used for inventory and prepaid items. A total of $3,453,262 has been assigned meaning there are limitations resulting from its intended use, such as construction of capital assets, payment of debt service, and for other purposes. The remaining $8,942,763 is unassigned and can be used for any lawful purpose.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund is $8,942,763, while total fund balance is $12,007,878. As a measure of the general fund's liquidity, it may be useful to compare the unassigned general fund balance and total general fund balance to total general fund expenditures and other financing sources and uses. Unassigned general fund balance represents 20 percent of total general fund expenditures plus other financing sources and uses, while total fund balance represents 27 percent of that same amount.

The fund balance of the general fund increased $408,052 during the fiscal year. Revenues were $1,789,250 higher. Sales and use tax revenue increased about $940,000 and property tax revenue increased about $650,000 due to higher valuations, both reflecting an improving area economy. Expenditures were about $390,000 higher than the prior year due partly to merit pay increases for employees and health care costs.

Landfill closure/postclosure fund balance decreased $550,348 as expenditures for the gas collection system exceeded investment income. The Stars Center fund balance increased $58,256 as rental revenue exceeded transfers for debt service. The Aquatic Center bond fund balance increased by $6,571,735 as bond proceeds were received during the year while construction of the new aquatic facility will occur in future years.

Proprietary Funds - The City's water and sewer fund is the primary component of proprietary funds. The water and sewer fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net position of the water and sewer fund was $13,998,967 of which $6,784,252 is intended for capital improvements. The internal service funds (the other component of proprietary funds) report activities that provide supplies and services for the City's various functions. The City uses internal service funds to account for equipment services and the City's workers' compensation and health insurance self-insurance programs. Because all of these services primarily benefit governmental rather than business-type activities, they have been included with governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights – During the fiscal year ending September 30, 2013, the City Council adopted amendments to the budget. In the general fund, the final budgeted revenues increased $340,100 compared to the original budgeted revenues. The budget for sales and use tax revenues increased $550,000. Final total budgeted expenditures increased $359,000 compared to the original budgeted expenditures. The final budget for public safety division expenditures increased $652,900 due primarily to increased personnel and health care costs.

CAPITAL ASSETS

The City's investment in capital assets for its government-wide activities as of September 30, 2013, amounts to $161,599,628 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, intangible assets, and construction in progress.

Major capital asset events during the current fiscal year included the following:

Completed Projects
- Wicker Pump Station rehabilitation for $1,677,000.
- Street and utility improvements for $957,000.
- Drainage improvements for $855,000.
- Additions to the automated meter reading system of $129,000.
- General Store at the Historical Park in amount of $100,000.

Amounts Spent for Ongoing Projects
- Belt-Marsh Pump Station rehabilitation for $450,000.
- New Aquatic Center for $450,000.
- Wicker generator for $380,000.
- Gillis tank painting for $250,000.
- Radio system upgrades for $190,000.

Capital Assets at Year-End
Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2013	2012	2013	2012	2013	2012
Land	$ 40,381,783	$ 40,645,270	$ 603,364	$ 603,364	$ 40,985,147	$ 41,248,634
Buildings	36,341,185	37,416,652	2,530,785	2,771,198	38,871,970	40,187,850
Equipment	6,036,576	5,456,319	1,237,942	1,187,268	7,274,518	6,643,587
Improvements	4,085,390	4,515,706		773	4,085,390	4,516,479
Infrastructure	29,395,499	31,056,500	35,127,432	33,736,803	64,522,931	64,793,303
Intangible assets	149,439	87,952	32,262		181,701	87,952
Construction in progress	4,467,184	3,649,327	1,210,787	2,574,916	5,677,971	6,224,243
Total	$ 120,857,056	$ 122,827,726	$ 40,742,572	$ 40,874,322	$ 161,599,628	$ 163,702,048

Additional information on the City's capital assets can be found in the notes to basic financial statements (see Note 3.D).

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of $29,815,281. Of this amount, $23,002,208 comprises bonded debt backed by the full faith and credit of the government and $6,813,073 comprises debt to be repaid from hotel/motel tax revenues and lease payments from the Dallas Stars and is backed by the full faith and credit of the government. The developer advances of $7,468,887 represent a loan to the City for capital project costs payable only from Tax Increment Financing District No. 1 funds.

Outstanding Debt at Year-End

	Governmental Activities	
	2013	2012
General obligation bonds	$ 23,002,208	$ 13,595,160
Special revenue bonds	6,813,073	7,693,841
Developer advances	7,468,887	7,868,887
Total	$ 37,284,168	$ 29,157,888

The City maintains favorable ratings from bond rating agencies. The ratings are as follows:

	Moody's Investors Service	Date Confirmed	Standard & Poor's	Date Confirmed
General obligation bonds				
2009 Combination tax and revenue, taxable	n/a	n/a	AA+	April 10, 2013
2010 General obligation refunding and improvement	Aa2	April 8, 2013	AA+	April 10, 2013
2012 Certificates of obligation	Aa2	April 8, 2013	AA+	April 10, 2013
2013 Certificates of obligation	Aa2	April 8, 2013	AA+	April 10, 2013
Special revenue bonds				
2010 General obligation refunding and improvement	Aa2	April 8, 2013	AA+	April 10, 2013
2011 General obligation refunding bonds, taxable	Aa2	April 8, 2013	AA+	April 10, 2013

Additional information on the City's long term-debt can be found in the notes to basic financial statements (see Note 3.F).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2014 budget has been constructed to take advantage of positive economic trends. The budget emphasizes investment in infrastructure and equipment including completion of a digital public safety radio system, re-establishment of the residential street overlay program and residential solid waste drop-off center, sidewalk improvements, and new software.

The City's single largest source of revenue is property taxes and it represents 41 percent of total general fund budgeted revenue. Property values increased four percent to $3.8 billion. Property tax rates increased to 55.31 cents per $100 valuation from 52.95 cents per $100 valuation. Sales tax revenue is the City's second largest source of revenue representing 30 percent of total general fund budgeted revenue. Sales tax revenue is projected to increase by four percent. The total general fund budgeted revenue was increased from the prior year by five percent or $2,369,400. Budgeted general fund expenditures are expected to increase by four percent or $2,019,200. This includes increases of about $600,000 for health insurance, $500,000 for the residential street overlay program, $400,000 for merit/salary increases, $300,000 for the Aquatic Center, and $130,000 for the residential solid waste drop-off center (Citizen's Convenience Station).

Budgeted revenue for the water and sewer fund is sixteen percent higher than fiscal year 2013. This is due to an increase in water and sewer rates by six percent and higher expected consumption levels compared to 2013. Budgeted expenses for the water and sewer fund are projected to increase ten percent due to additional infrastructure spending of about $500,000, increased water and wastewater treatment costs of about $440,000, and added utility system maintenance crew of about $200,000.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Director of Finance, at 13000 William Dodson Parkway, Farmers Branch, Texas 75234, or call (972) 247-3131, or e-mail charles.cox@farmersbranchtx.gov.

STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash, cash equivalents, and investments	$ 34,448,703	$ 6,722,837	$ 41,171,540
Receivables (net of allowance for uncollectibles)	6,202,233	2,441,418	8,643,651
Inventories	1,540,407		1,540,407
Deposits	23,000		23,000
Prepaid items	75,172	228,565	303,737
Equity interest in joint venture		5,713,015	5,713,015
Capital assets:			
Nondepreciable	44,848,967	1,814,151	46,663,118
Depreciable, net of accumulated depreciation	76,008,089	38,928,421	114,936,510
Total assets	163,146,571	55,848,407	218,994,978
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	187,291		187,291
Total deferred outflows of resources	187,291		187,291
LIABILITIES			
Accounts payable and other accrued liabilities	3,658,974	592,920	4,251,894
Retainage payable	16,562	70,464	87,026
Accrued interest payable	7,457,891		7,457,891
Deposits payable	630,792	248,331	879,123
Internal balances	(53,591)	53,591	
Unearned revenue	38,517		38,517
Noncurrent liabilities:			
Due within one year	3,489,779	46,337	3,536,116
Due in more than one year	59,902,291	254,020	60,156,311
Total liabilities	75,141,215	1,265,663	76,406,878
NET POSITION			
Net Investment in capital assets	100,736,048	40,637,368	141,373,416
Restricted for:			
Construction of capital assets	577,056		577,056
Promotion of tourism	770,255		770,255
Purposes of grantors/trustees	881,857		881,857
Debt service	494,047		494,047
Law enforcement	870,124		870,124
Unrestricted	(16,136,740)	13,945,376	(2,191,364)
Total net position	$ 88,192,647	$ 54,582,744	$ 142,775,391

The accompanying notes are an integral part of the financial statements.

CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 10,914,452	$ 1,241,536	$ 409,380	$
Public safety	22,772,965	4,283,496	19,176	
Public works	8,875,224	2,254,323	282,890	303,998
Culture and recreation	12,739,313	1,144,483	70,547	
Interest on long-term debt	1,887,714			
Unallocated depreciation	126,464			
Total governmental activities	57,316,132	8,923,838	781,993	303,998
Business-type activities:				
Water and sewer	12,249,982	14,194,339		
Total business-type activities	12,249,982	14,194,339		
Total primary government	$ 69,566,114	$ 23,118,177	$ 781,993	$ 303,998

General revenues:
Taxes:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Sales and use taxes
Hotel/motel taxes
Franchise taxes
Tax increment financing
Investment income
Loss on disposal of capital assets
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position--beginning
Net position--ending

The accompanying notes are an integral part of the financial statements.

Exhibit A-2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (9,263,536)	$	$ (9,263,536)
(18,470,293)		(18,470,293)
(6,034,013)		(6,034,013)
(11,524,283)		(11,524,283)
(1,887,714)		(1,887,714)
(126,464)		(126,464)
(47,306,303)		(47,306,303)
	1,944,357	1,944,357
	1,944,357	1,944,357
$ (47,306,303)	$ 1,944,357	$ (45,361,946)
17,707,657		17,707,657
1,284,446		1,284,446
13,689,917		13,689,917
2,253,459		2,253,459
4,420,712		4,420,712
797,278		797,278
1,386,221	20,563	1,406,784
	(46,610)	(46,610)
4,862		4,862
3,073,500	(3,073,500)	
44,618,052	(3,099,547)	41,518,505
(2,688,251)	(1,155,190)	(3,843,441)
90,880,898	55,737,934	146,618,832
$ 88,192,647	$ 54,582,744	$ 142,775,391

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General	Landfill Closure/ Postclosure	Stars Center	Aquatic Center Bond	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash, cash equivalents, and investments	$ 10,515,798	$ 6,201,021	$ 1,089,818	$ 6,625,044	$ 8,593,121	$ 33,024,802
Receivables (net of allowance for uncollectibles)	5,403,436				643,912	6,047,348
Accrued interest and other	57,289	25,901	4,229	28,333	28,108	143,860
Due from other funds	52,500					52,500
Inventories	120,000				1,368,372	1,488,372
Prepaid items	53,954				688	54,642
Total assets	$ 16,202,977	$ 6,226,922	$ 1,094,047	$ 6,653,377	$ 10,634,201	$ 40,811,524
LIABILITIES						
Accounts payable	$ 2,732,842	$ 55,904	$	$ 79,152	$ 470,593	$ 3,338,491
Retainage payable	3,732			2,490	10,340	16,562
Deposits payable	25,667		600,000		5,125	630,792
Due to other funds					52,500	52,500
Unearned revenue - other	8,562				29,955	38,517
Total liabilities	2,770,803	55,904	600,000	81,642	568,513	4,076,862
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	1,424,296				275,631	1,699,927
Total deferred inflows of resources	1,424,296				275,631	1,699,927
FUND BALANCES						
Nonspendable:						
Inventory					4,937	4,937
Prepaid items	53,954				688	54,642
Restricted:						
Construction of capital assets				6,571,735	3,498,724	10,070,459
Landfill closure/postclosure		6,171,018				6,171,018
Dangerous structures abatement					3,326,996	3,326,996
Promotion of tourism					764,630	764,630
Purpose of grantors, trustees and donors					881,857	881,857
Debt service			494,047			494,047
Law enforcement					870,124	870,124
Assigned:						
Construction of capital assets					198,360	198,360
Other capital assets	593,582					593,582
Debt service					243,741	243,741
Economic development	1,988,897					1,988,897
Other purposes	428,682					428,682
Unassigned	8,942,763					8,942,763
Total fund balances	12,007,878	6,171,018	494,047	6,571,735	9,790,057	35,034,735
Total liabilities, deferred inflows of resources, and fund balances	$ 16,202,977	$ 6,226,922	$ 1,094,047	$ 6,653,377	$ 10,634,201	$ 40,811,524

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Total fund balances - governmental funds (page 14):	$ 35,034,735
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (net of internal service fund capital assets of $129,763).	120,727,293
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,699,927
Internal service funds are used by management to charge the cost of certain activities, such as fleet management and workers' compensation and medical self-insurance programs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (net of amount allocated to business-type activities of $53,591).	183,354
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(69,452,662)
Net position of governmental activities	$ 88,192,647

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	General	Landfill Closure/ Postclosure	Stars Center	Aquatic Center Bond	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$ 17,886,740	$	$	$	$ 1,313,986	$ 19,200,726
Sales and use taxes	13,689,917					13,689,917
Hotel/motel taxes					2,253,459	2,253,459
Franchise taxes	4,358,324				61,185	4,419,509
Tax increment financing					910,899	910,899
Licenses and permits	1,015,017					1,015,017
Charges for services	4,539,757					4,539,757
Fines and forfeitures	2,121,697				948,715	3,070,412
Special assessments					9,806	9,806
Investment income	600,333	18,717	663,056	20,475	39,445	1,342,026
Intergovernmental	111,456				458,247	569,703
Developer's contributions					100,000	100,000
Miscellaneous	85,025				455,317	540,342
Total revenues	44,408,266	18,717	663,056	20,475	6,551,059	51,661,573
EXPENDITURES						
Current:						
General government	10,538,652				559,705	11,098,357
Public safety	21,640,592				748,465	22,389,057
Public works	5,717,415	569,065				6,286,480
Culture and recreation	10,678,436				1,432,961	12,111,397
Debt service:						
Principal retirement					2,000,000	2,000,000
Interest and fiscal agent charges					752,555	752,555
Issuance costs				147,715	34,618	182,333
Capital outlay				449,780	1,413,127	1,862,907
Total expenditures	48,575,095	569,065		597,495	6,941,431	56,683,086
Deficiency of revenues over (under) expenditures	(4,166,829)	(550,348)	663,056	(577,020)	(390,372)	(5,021,513)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,777,500				1,060,412	4,837,912
Transfers out			(604,800)		(1,159,612)	(1,764,412)
General obligation bonds issued				6,500,000	3,000,000	9,500,000
Premiums on debt issued				648,755		648,755
Sale of general capital assets	778,298					778,298
Insurance recoveries	19,083					19,083
Total other financing sources (uses)	4,574,881		(604,800)	7,148,755	2,900,800	14,019,636
Net change in fund balances	408,052	(550,348)	58,256	6,571,735	2,510,428	8,998,123
Fund balances--beginning	11,599,826	6,721,366	435,791		7,279,629	26,036,612
Fund balances--ending	$ 12,007,878	$ 6,171,018	$ 494,047	$ 6,571,735	$ 9,790,057	$ 35,034,735

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Amounts reported for governmental activities in the statement of activities (page 12) are different because:	
Net change in fund balances - total governmental funds (page 16)	$ 8,998,123
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were less than depreciation expense in the current period.	(1,390,234)
The net effect of the various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.	(560,742)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(343,831)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(8,148,755)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,091,850)
Internal service funds are used by management to charge the costs of fleet management, workers' compensation, and health claims, to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(150,962)
Change in net position of governmental activities:	$ (2,688,251)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget
REVENUES						
Property taxes	$ 18,100,000	$ 17,900,000	$ 17,886,740	$	$ 17,886,740	$ (13,260)
Sales and use tax	12,995,000	13,545,000	13,689,917		13,689,917	144,917
Franchise taxes	4,508,000	4,450,000	4,358,324		4,358,324	(91,676)
Licenses and permits	1,015,000	1,019,000	1,015,017		1,015,017	(3,983)
Charges for services	4,653,300	4,643,000	4,539,757		4,539,757	(103,243)
Fines and forfeitures	2,157,000	2,057,000	2,121,697		2,121,697	64,697
Investment income	603,000	614,000	600,333		600,333	(13,667)
Intergovernmental		111,500	111,456		111,456	(44)
Miscellaneous	56,000	87,900	85,025		85,025	(2,875)
Total revenues	44,087,300	44,427,400	44,408,266		44,408,266	(19,134)
EXPENDITURES						
Current:						
General government	11,173,100	10,582,400	10,538,652	393,667	10,932,319	(349,919)
Public safety	20,729,200	21,382,100	21,640,592	(33,322)	21,607,270	(225,170)
Public works	5,858,300	6,040,000	5,717,415	160,621	5,878,036	161,964
Culture and recreation	10,729,800	10,844,900	10,678,436	(127,760)	10,550,676	294,224
Total expenditures	48,490,400	48,849,400	48,575,095	393,206	48,968,301	(118,901)
Deficiency of revenues under expenditures	(4,403,100)	(4,422,000)	(4,166,829)	(393,206)	(4,560,035)	(138,035)
OTHER FINANCING SOURCES						
Transfers in	4,160,500	3,777,500	3,777,500		3,777,500	
Sale of general capital assets	775,000	778,200	778,298		778,298	98
Insurance recoveries	21,500	21,500	19,083		19,083	(2,417)
Total other financing sources	4,957,000	4,577,200	4,574,881		4,574,881	(2,319)
Net change in fund balance	553,900	155,200	408,052	(393,206)	14,846	(140,354)
Fund balances--beginning	11,107,692	11,107,692	11,599,826	(492,134)	11,107,692	
Fund balances--ending	$ 11,661,592	$ 11,262,892	$ 12,007,878	$ (885,340)	$ 11,122,538	$ (140,354)

Explanation of differences:	
Expenditures of amounts encumbered at September 30, 2012	$ 476,634
Encumbrances outstanding at September 30, 2013 are considered an assignment of fund balance for GAAP basis reporting, but recognized as expenditures for budget purposes	(869,840)
Net decrease in fund balance - GAAP to budget	$ (393,206)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - LANDFILL CLOSURE/POSTCLOSURE FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget
REVENUES						
Investment income	$ 100,000	$ 28,000	$ 18,717	$	$ 18,717	$ (9,283)
Total revenues	100,000	28,000	18,717		18,717	(9,283)
EXPENDITURES						
Current:						
Public works	840,000	684,800	569,065	67,200	636,265	48,535
Total expenditures	840,000	684,800	569,065	67,200	636,265	48,535
Deficiency of revenues under expenditures	(740,000)	(656,800)	(550,348)	(67,200)	(617,548)	39,252
Fund balances--beginning	6,721,366	6,721,366	6,721,366		6,721,366	
Fund balances--ending	$ 5,981,366	$ 6,064,566	$ 6,171,018	$ (67,200)	$ 6,103,818	$ 39,252

Explanation of differences:

Encumbrances outstanding at September 30, 2013 are considered an assignment of fund balance for GAAP basis reporting, but recognized as expenditures for budget purposes	67,200
Net decrease in fund balance - GAAP to budget	$ 67,200

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - STARS CENTER FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget
REVENUES						
Investment income	$ 663,000	$ 663,000	$ 663,056	$	$ 663,056	$ 56
OTHER FINANCING USES						
Transfers out	(604,800)	(604,800)	(604,800)		(604,800)	
Net change in fund balances	58,200	58,200	58,256		58,256	56
Fund balances--beginning	435,791	435,791	435,791		435,791	
Fund balances--ending	$ 493,991	$ 493,991	$ 494,047	$	$ 494,047	$ 56

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	$ 6,722,837	$ 1,423,901
Receivables (net of allowance for uncollectibles)	2,412,963	11,025
Accrued interest and other	28,455	
Inventories		52,035
Prepaid items	228,565	20,530
Deposits		23,000
Total current assets	9,392,820	1,530,491
Noncurrent assets:		
Equity interest in joint venture	5,713,015	
Capital assets:		
Nondepreciable	1,814,151	8,170
Depreciable, net of accumulated depreciation	38,928,421	121,593
Total noncurrent assets	46,455,587	129,763
Total assets	55,848,407	1,660,254
LIABILITIES		
Current liabilities:		
Accounts payable and other accrued liabilities	592,920	320,483
Compensated absences	46,337	23,614
Claims payable		746,672
Retainage payable	70,464	
Deposits payable	248,331	
Total current liabilities	958,052	1,090,769
Noncurrent liabilities:		
Compensated absences	176,360	59,128
Claims payable		360,377
Other post employment benefits obligation	77,660	20,217
Total noncurrent liabilities	254,020	439,722
Total liabilities	1,212,072	1,530,491
NET POSITION		
Net investment in capital assets	40,637,368	129,763
Unrestricted	13,998,967	
Total net position	$ 54,636,335	$ 129,763
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time	(53,591)	
Net position of business-type activities	$ 54,582,744	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
Operating revenues		
Charges for services	$ 14,190,778	$ 2,381,023
Contributions and miscellaneous	3,561	5,014,564
Total operating revenues	14,194,339	7,395,587
Operating expenses		
Personal services	1,670,624	570,379
Materials and supplies	246,796	1,596,258
Maintenance and utilities	1,119,517	214,386
Purchase of water	4,476,816	
Sewage treatment	2,357,421	
Insurance claims and expenses		5,172,945
Depreciation	2,283,946	19,694
Total operating expenses	12,155,120	7,573,662
Operating income (loss)	2,039,219	(178,075)
Nonoperating revenues (expenses)		
Investment income	20,563	
Loss of the joint venture	(67,749)	
Loss on disposal of capital assets	(46,610)	
Total nonoperating expenses	(93,796)	
Income (loss) before transfers	1,945,423	(178,075)
Transfers out	(3,073,500)	
Change in net position	(1,128,077)	(178,075)
Net position--beginning	55,764,412	307,838
Net position--ending	$ 54,636,335	$ 129,763

Reconciliation to government-wide statement of net position:	
Change in net position	$ (1,128,077)
Adjustment to reflect the consolidation of internal service fund activities related to the water and sewer fund	(27,113)
Change in net position of business-type activities	$ (1,155,190)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 14,217,902	$
Receipts from interfund services provided		7,447,890
Payments to suppliers	(8,216,950)	(1,797,209)
Payments to employees	(1,656,353)	(561,583)
Payments for loss claims		(4,679,496)
Payments for interfund services	(379,877)	
Net cash provided by operating activities	3,964,722	409,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(3,073,500)	
Net cash used for noncapital financing activities	(3,073,500)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,215,642)	
Proceeds from sale of capital assets	16,836	
Net cash used for capital and related financing activities	(2,198,806)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	955,031	
Investment income	42,800	
Net cash provided by investing activities	997,831	
Net increase (decrease) in cash and cash equivalents	(309,753)	409,602
Cash and cash equivalents - beginning of year	438,748	1,014,299
Cash and cash equivalents - end of year	$ 128,995	$ 1,423,901
Cash and cash equivalents - end of year	$ 128,995	$ 1,423,901
Investments	6,593,842	
Cash, cash equivalents, and investments - end of year	$ 6,722,837	$ 1,423,901
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Loss on disposal of assets	$ (63,446)	
Loss of the joint venture	$ (67,749)	

The accompanying notes are an integral part of the financial statements.

(continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities -- Water and Sewer Fund	Governmental Activities -- Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ 2,039,219	$ (178,075)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	2,283,946	19,694
Change in assets and liabilities:		
(Increase) decrease in receivables	(25,309)	46,303
Decrease in inventory of materials and supplies		19,550
Decrease in deposits		6,000
Increase in prepaid items	(160,292)	(15,529)
Decrease in accounts payable	(142,603)	
Increase in accrued liabilities		142,885
Decrease in retainage payable	(27,055)	
Increase in claims payable		360,055
Increase in deposits payable	48,872	
Increase in OPEB liability	3,717	1,416
Increase (decrease) in accrued compensated absences	(55,773)	7,303
Net cash provided by operating activities	$ 3,964,722	$ 409,602

The accompanying notes are an integral part of the financial statements. (concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Farmers Branch, Texas (the "City") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a five-member council. The City was incorporated in 1946 under the Constitution of the State of Texas (Home Rule Amendment). As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. A component unit is included in the City's reporting entity if it is both fiscally dependent on the City (the primary government) and there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Because of the closeness of their relationship with the primary government (the City), some component units are blended as though they are part of the primary government. The City's blended component units and joint venture, which all have a September 30 year-end, are as follows:

Blended Component Units

The Taxing Increment Financing District Number One ("TIF No. 1 District") and Taxing Increment Financing District Number Two ("TIF No. 2 District") were created pursuant to the Texas Tax Increment Financing Act, Tax Code Chapter 311, as amended. The purpose of the TIF District No. 1 is to promote development in the Mercer Crossing area. The purpose of the TIF District No. 2 is to promote development in the Old Farmers Branch area. The Districts are reported as capital projects funds and are included as blended component units because the City has operational responsibility for them and manages their activities.

The Farmers Branch Local Government Corporation ("FBLGC") was organized for the purpose of aiding, assisting, and acting on behalf of the City in the exercise of its powers to accomplish any governmental purpose of the City and in the promotion of the common good and general welfare of the City including, without limitation, the furtherance of the promotion, development, encouragement, and maintenance of employment, commerce, economic development and public facility development in the City, and currently to develop oil, natural gas and other mineral interests on behalf of the City. The board members of the FBLGC are appointed by the City Council. The FBLGC is authorized to issue bonds, notes or other obligations after approval by the City Council. Complete financial statements of the FBLGC can be obtained from the City's finance department. The FBLGC has been included as a blended component unit because it is fiscally dependent (the City must approve any issuance of debt) and the purpose of the corporation is to provide a benefit to the City.

Joint Venture

The North Dallas County Water Supply Corporation ("NDCWSC") is a joint venture between the City and the Town of Addison (the "Town") to design, construct, operate, and maintain a joint sanitary sewer interceptor and conventional sewer lines. The NDCWSC, a public instrumentality and nonprofit water supply corporation, was created for that purpose. Upon dissolution of the NDCWSC, the City and Town will share the net position in the proportions stated in an inter-local agreement. The affairs of the NDCWSC are managed by a six-person board of directors appointed by the governing bodies of the City and the Town.

The City and the Town are each obligated to fund construction of the sanitary sewer interceptor in the proportions stated in the inter-local agreement. The City has financed its portion of construction funds through the issuance and sale of assessment revenue bonds and a transfer from previously issued sewer bonds. The City's net investment and its share of the operating results of the NDCWSC are reported in the City's water and sewer fund. The City's equity interest in the NDCWSC was $5,713,015 at September 30, 2013. Complete financial statements for the NDCWSC can be obtained from the City's finance department.

B. Basis of Presentation

While separate government-wide financial statements (based on the City as a whole) and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

The fund financial statements provide information about the City's funds, including its blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The *landfill closure/postclosure fund* is used to account for future landfill costs.

The *Stars Center fund* is used to account for Stars/Conference Center rental revenue and transfers to debt service for bond payments.

The *Aquatic Center bond fund* is used to design, construct, and equip a new aquatics facility.

The City reports the following major proprietary fund:

The *water and sewer fund* is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City reports the following internal service funds:

The *internal service funds* are used to account for equipment services and the City's workers' compensation and medical self-insurance programs for the departments of the City on a cost reimbursement basis.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to the type of resources being measured such as current financial resources or economic resources. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as an other financing source.

Property, franchise, sales and hotel occupancy taxes, and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when the government receives cash.

D. Budgetary Information

1) Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, landfill closure/postclosure fund, Stars Center fund, special revenue funds, and debt service fund. The capital projects funds are appropriated on a project-length basis and often span a period of more than one year.

The appropriated budget is prepared by fund, department, and function. The City Manager may transfer unencumbered appropriations within a department. City Council approval is necessary for transfers of unencumbered appropriations between departments and funds. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Special revenue funds are budgeted at the function level. Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

2) Excess of Expenditures over Appropriations

For the year ended September 30, 2013, expenditures in the general fund's finance division exceeded appropriations by $512,178, the police division exceeded appropriations by $227,031, and the community services division exceeded appropriations by $1,208. These were all planned purchases of capital assets from fund balance and were approved by City Council.

In the nonmajor special revenue funds, the donation fund's general government division exceeded appropriations by $16,412 for legal fees. There were sufficient donations to provide for the excess expenditure. Also, the grant fund's public safety division and culture and recreation division exceeded appropriations by $2,236 and $766, respectively. The grant revenue for each of these divisions was also higher by the same amounts.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1) Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2) Investments

Investments are recorded at fair value (based on quoted market prices), except for investments with maturity of one year or less from date of purchase, which are stated at amortized cost, and except for the position in TexPool. In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

3) Receivables

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible accounts. The property tax receivable allowance is equal to 5% of outstanding property taxes at September 30, 2013.

4) Inventories and Prepaid Items

Inventories are stated at the lower of average cost or market for the internal service funds and for the inventory of land held for resale in the general fund and special revenue funds. All other inventories in the special revenue funds are stated at average cost. Inventories are recorded as assets when purchased and charged to operations when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5) Capital Assets

Capital assets include land, buildings, equipment, improvements, infrastructure (e.g., roads, bridges, sidewalks, and similar items), and intangible assets (e.g., software, websites). Capital assets purchased, acquired or developed, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The City defines capital assets as having a useful life longer than one year and an initial, individual cost which exceeds the capitalization threshold for their class. The capitalization threshold for the infrastructure class is $100,000. The capitalization threshold for all other asset classes is $5,000. Other costs incurred for repairs and maintenance are expensed. Insurance recoveries of $19,083 were received for the year ended September 30, 2013. They are included as an “other financing source” in the general fund.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated on the straight-line basis over the following estimated useful lives:

Capital asset classes	Lives
Buildings	30 - 50 years
Equipment	5 - 30 years
Improvements	20 years
Intangible assets-software/websites	5 years
Infrastructure	15 - 62.5 years

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental funds report unavailable revenues from the following sources:

	General Fund	Nonmajor Governmental Funds	Total
Property taxes	$591,631	$96,135	$687,766
Ambulance	118,545		118,545
Franchise taxes - electric	662,499		662,499
Charges for services - culture and recreation	51,621		51,621
Special assessments		22,009	22,009
Tax increment financing		157,487	157,487
Total	$1,424,296	$275,631	$1,699,927

7) Net Position Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to be reported as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

The net investment in capital assets for the business-type activities is reported net of related debt in the amount of $105,204, which represents account and retainage payables for capital asset activity.

The governmental activities unrestricted net position is a deficit of $16,136,740 at September 30, 2013. Please refer to page 5 of the MD&A for the City’s plan to reduce and eventually eliminate this deficit.

8) Fund Balance Policies and Flow Assumptions

Governmental fund's fund balances classified as restricted are balances constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution, which are considered equally restrictive for the purpose of committing fund balance. The City Council must take the same level of action to remove or change the constraint. Assigned fund balances are constrained by intent to use for a specific purpose but are neither restricted nor committed. Assignments are made by City management based on Council direction.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

In the general fund, the City strives to maintain a target range of unassigned fund balance to be used for unanticipated emergencies with a low end of 15% and a high end of 20% of the actual GAAP basis expenditures and other financing sources and uses.

F. Revenues and Expenditures/Expenses

1) Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

2) Property Taxes

The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year.

3) Compensated Absences

The City's employees earn vacation leave (up to a maximum of 192 hours per year) based on days employed. Upon retirement or termination, payment of accumulated vacation may not exceed that which can be accumulated within two years for employees hired prior to January 1, 2011 and within one and a half years for employees hired on or after January 1, 2011. Unused sick leave, based on days employed, may be accumulated up to certain limits. Upon retirement or termination, employees hired before October 1, 1992 will be paid a maximum of 720 hours of sick pay for 40 hours per week employees or 1,080 hours for 56 hours per week employees. Upon retirement or termination, employees hired between October 1, 1992 and December 31, 2010 with five years or less of service will be paid a maximum of 120 hours of sick pay and with more than five years of service will be paid a maximum of 240 hours of sick pay. Employees hired on or after January 1, 2011 receive no payout for unused sick leave upon retirement or termination.

4) Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund and the government's internal service funds are charges to customers for sales and services. Operating expenses for water and sewer funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of the $120,727,293 are as follows:

Land and rights of way	$ 40,373,613
Construction in progress	4,467,184
Improvements	9,985,752
Less: Accumulated depreciation-improvements	(5,900,362)
Buildings	47,867,919
Less: Accumulated depreciation-buildings	(11,645,593)
Equipment	22,994,513
Less: Accumulated depreciation-equipment	(16,960,671)
Infrastructure	94,987,984
Less: Accumulated depreciation-infrastructure	(65,592,485)
Intangible assets	1,062,901
Less: Accumulated depreciation-intangible assets	(913,462)
Net adjustment to increase *fund balance - total government funds* to arrive at *net position - governmental activities*	$120,727,293

Another element of that reconciliation explains that "internal service funds are used by management to charge the costs of certain activities, such as fleet management and workers' compensation and medical self-insurance programs, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position." The details of this $183,354 difference are as follows:

Net position of the internal service funds	$ 129,763
Less: Internal receivable representing charges below cost to business-type activities - prior years	26,478
Less: Internal receivable representing charges below cost to business-type activities - current year	27,113
Net adjustment to increase *fund balance - total government funds* to arrive at *net position - governmental activities*	$ 183,354

The final element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this $69,452,662 difference are as follows:

Bonds payable	$ 29,045,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(187,291)
Add: Issuance premium (to be amortized over life of debt)	770,281
Developer advances	7,468,887
Accrued interest payable	7,457,891
Compensated absences	5,596,137
Net pension obligation	3,209,536
Net other postemployment benefits obligation	1,033,986
Landfill liability	15,058,235
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ 69,452,662

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period." The details of this $1,390,234 difference are as follows:

Capital outlay	$ (3,599,364)
Depreciation expense	4,989,598
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 1,390,234

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position." The details of this $560,742 difference are as follows:

In the statement of activities, only the *loss* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.	$ 604,937
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	(44,195)
Net adjustment to decrease *total governmental funds* to arrive at *changes in net position of governmental activities*	$ 560,742

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this $8,148,755 difference are as follows:

Debt issued or incurred:	
General obligation refunding and improvement bonds issued	$ 9,500,000
Plus premium	648,755
Principal repayments:	
General obligation debt	(745,000)
Special revenue debt	(855,000)
Developer advances	(400,000)
Net adjustment to decrease *total governmental funds* to arrive at *changes in net position of governmental activities*	$ 8,148,755

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $1,091,850 difference are as follows:

Compensated absences	$ (87,044)
Net pension obligation	27,049
Net other post employment benefits obligation	47,960
Accrued interest on long-term debt	973,045
Amortization of bond premiums	(22,475)
Amortization of deferred charge on refunding	24,948
Landfill liability	128,367
Net adjustment to decrease *total governmental funds* to arrive at *changes in net position of governmental activities*	$ 1,091,850

Another element of that reconciliation states that “internal service funds are used by management to charge the costs of fleet management, workers’ compensation, and health claims, to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this $150,962 difference are as follows:

Change in net position of the internal service funds	$	178,075
Plus: gain from charges to business-type activities		(27,113)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	150,962

C. Explanation of Certain Differences Between the Proprietary Fund Statement of Net Position and the Government-Wide Statement of Net Position

The proprietary fund statement of net position includes reconciliation between *net position – total enterprise funds* and *net position of business-type activities* as reported in the government-wide statement of net position. The description of the only item of that reconciliation is “adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time.” The details of the $53,591 difference are as follows:

Internal payable representing charges below cost to business-type activities - prior years	$	26,478
Internal payable representing charges below cost to business-type activities - current year		27,113
Net adjustment to decrease *net position - total enterprise funds* to arrive at *changes in net position of business-type activities*	$	53,591

3. DETAILED NOTES ON ALL FUNDS

A. Cash Deposits with Financial Institutions

At year-end, the carrying amount of the City's deposits was $2,284,670 and the bank balance was $3,243,799. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name. At year-end, the carrying amount of the Farmers Branch Local Government Corporation, blended component unit’s bank balance was $40,683. The bank balance was completely covered by federal depository insurance.

B. Investments

TexPool operates in accordance with state law, which requires that it meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.E.2, *Investments*, for a discussion of how the shares in the Pool are valued. TexPool has a credit rating of AAA from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. TexPool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

To maximize investment opportunities, all funds (excluding the debt service fund and the internal service funds) participate in a pooling of cash and investment income. Each fund may liquidate its equity in the pool on demand.

State statutes, City bond ordinances, and City resolutions authorize the City’s investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of Texas and its agencies and instrumentalities, obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating, insured or collateralized certificates of deposit, fully collateralized repurchase agreements, and government pools.

The City elects to exclude investments with maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. As of September 30, 2013, the City had the following investments:

Description	Reported Amount	Fair Value	Weighted Average Maturity (in days)
Municipal Obligations	$ 2,809,178	$ 2,809,182	367
TexPool	100,271	100,271	60
Certificates of Deposit Account Registry	11,905,000	11,905,000	214
Federal Farm Credit Bank Notes	1,498,717	1,498,717	176
Federal National Mortgage Association	6,947,302	6,947,302	151
Federal Home Loan Mortgage Corporation	10,836,141	10,836,429	209
Federal Home Loan Bank Notes	4,749,578	4,749,276	182
Total Investments	$ 38,846,187	$ 38,846,177	
Portfolio Weighted Average Maturity			206

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to eighteen months (548 days).

Credit Risk. The City's investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The City's investments were rated as follows:

Credit Quality Distribution for Securities
with Credit Exposure as a Percentage of Total Investments

Municipal Obligations	Aaa/AAA*	1%
TexPool	Aaa/AAA	0%
Federal Home Loan Mortgage Corporation	Aaa/AA	28%
Federal Home Loan Bank	Aaa/AA	12%
Federal National Mortgage Association	Aaa/AA	4%
Municipal Obligations	Aa/AA	4%
Federal National Mortgage Association	Aa/A	14%
Municipal Obligations	A/A	2%

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments. The City's portfolio is 30.65% invested in Certificates of Deposit Account Registry, 12.23% invested in Federal Home Loan Bank, and 7.23% invested in Municipal Obligations as of September 30, 2013. The remaining 49.89% of the City's investments is invested in U.S. government issues, U.S. guaranteed obligations, or an external investment pool.

C. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Governmental	Internal Service	Water and Sewer	Total
Receivables:					
Property tax	$ 625,496	$ 101,195	$	$	$ 726,691
Other taxes	4,053,517	211,308			4,264,825
Accounts	2,253,209	156,972	11,025	917,527	3,338,733
Unbilled accounts				1,554,358	1,554,358
Assessments		193,015			193,015
Gross receivables	6,932,222	662,490	11,025	2,471,885	10,077,622
Less: Allowance for uncollectibles	(1,528,786)	(18,578)		(58,922)	(1,606,286)
Net total receivables	$5,403,436	$ 643,912	$ 11,025	$2,412,963	$ 8,471,336

D. Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Primary Government			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and rights of way	$ 40,645,270	$	$ (263,487)	$ 40,381,783
Construction in progress	3,649,327	974,311	(156,454)	4,467,184
Total capital assets, not being depreciated	44,294,597	974,311	(419,941)	44,848,967
Capital assets, being depreciated				
Improvements	9,984,308	12,390	(10,946)	9,985,752
Buildings	48,351,921	100,000	(211,200)	48,240,721
Equipment	23,232,919	2,268,537	(2,133,000)	23,368,456
Infrastructure	94,650,850	342,506	(5,372)	94,987,984
Intangible assets - software/websites	1,005,632	102,269	(45,000)	1,062,901
Total capital assets, being depreciated	177,225,630	2,825,702	(2,405,518)	177,645,814
Less accumulated depreciation for:				
Improvements	(5,468,602)	(432,368)	608	(5,900,362)
Buildings	(10,935,269)	(1,029,739)	65,472	(11,899,536)
Equipment	(17,776,600)	(1,511,896)	1,956,616	(17,331,880)
Infrastructure	(63,594,350)	(2,003,507)	5,372	(65,592,485)
Intangible assets - software/websites	(917,680)	(31,782)	36,000	(913,462)
Total accumulated depreciation	(98,692,501)	(5,009,292)	2,064,068	(101,637,725)
Total capital assets, being depreciated, net	78,533,129	(2,183,590)	(341,450)	76,008,089
Governmental activities capital assets, net	$ 122,827,726	$ (1,209,279)	$ (761,391)	$ 120,857,056
Business-type activities:				
Capital assets, not being depreciated:				
Land and rights of way	$ 603,364	$	$	$ 603,364
Construction in progress	2,574,916	1,042,077	(2,406,206)	1,210,787
Total capital assets, not being depreciated	3,178,280	1,042,077	(2,406,206)	1,814,151
Capital assets, being depreciated:				
Improvements	23,206			23,206
Buildings	9,116,269			9,116,269
Equipment	3,710,625	377,186	(192,978)	3,894,833
Infrastructure	76,708,960	3,169,210	(106,574)	79,771,596
Intangible assets - software/websites		33,375		33,375
Total capital assets, being depreciated	89,559,060	3,579,771	(299,552)	92,839,279
Less accumulated depreciation for:				
Improvements	(22,433)	(773)		(23,206)
Buildings	(6,345,071)	(240,413)		(6,585,484)
Equipment	(2,523,357)	(263,066)	129,532	(2,656,891)
Infrastructure	(42,972,157)	(1,778,581)	106,574	(44,644,164)
Intangible assets - software/websites		(1,113)		(1,113)
Total accumulated depreciation	(51,863,018)	(2,283,946)	236,106	(53,910,858)
Total capital assets, being depreciated, net	37,696,042	1,295,825	(63,446)	38,928,421
Business-type activities capital assets, net	$ 40,874,322	$ 2,337,902	$ (2,469,652)	$ 40,742,572

The preceding schedule includes internal service assets in the governmental activities. Internal service fund depreciation expense is allocated to the primary government based on each function's or program's usage of its services.

Depreciation expense (includes amortization expense of intangible assets) was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	$	228,363
Public safety		1,128,134
Public works, which includes the depreciation of general infrastructure assets		2,200,361
Culture and recreation		1,325,970
Unallocated		126,464
Total depreciation expense - governmental activities	$	5,009,292
Business-type activities:		
Water and sewer	$	2,283,946
Total depreciation expense business-type activities	$	2,283,946

Construction Commitments and Other Significant Commitments Including Encumbrances

The City has entered into several construction contracts during the fiscal year, which include street improvements, replacement of water mains, and the construction of municipal facilities. As of September 30, 2013, the City had outstanding construction contracts totaling $3,343,836 that will be financed from operating funds. Other significant commitments include the encumbrances outstanding for the general fund and non-major funds other than capital projects as shown below.

		Construction Commitments/ Encumbrances
Aquatic Center bond fund	$	551,230
Water and sewer fund		169,675
Non-major capital projects funds		2,622,931
Total	$	3,343,836

		Encumbrances
General fund for capital assets	$	356,658
General fund for other purposes		428,682
General fund for economic development		100,000
Landfill closure/postclosure fund		67,200
Water and sewer fund for capital assets		246,764
Non-major funds other than capital projects		332,920
Total	$	1,532,224

E. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2013 consisted of the following:

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental fund - Grant fund	$ 52,500

Purpose of Due To / From Other Funds

Due to/from transactions are used for short-term interfund loans. The outstanding balance for the grant fund is the result of a time lag between the date the grant revenue was received and the date the qualifying grant expenditure was made.

Government interfund transfers during the year ended September 30, 2013 were as follows:

	TRANSFERS IN		
TRANSFERS OUT	General Fund	Nonmajor Governmental Funds	Total
Nonmajor governmental funds	$ 704,000	$ 1,060,412	$ 1,764,412
Water and sewer fund	3,073,500		3,073,500
Total	$ 3,777,500	$ 1,060,412	$ 4,837,912

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental and proprietary fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers are used to (1) move unrestricted revenues to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) for the water and sewer fund to the general fund for a payment in lieu of taxes.

F. Long-Term Liabilities

General Obligation Bonds – The City of Farmers Branch issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the city. These bonds are generally issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 20 years. The city is required to compute, at the time taxes are levied, the rate of tax required to provide a fund to pay interest and principal at maturity. The city is in compliance with this requirement.

During the year, the City of Farmers Branch issued Combination Tax & Revenue Certificates of Obligation, Series 2012 in the amount of $3,000,000 and Combination Tax & Revenue Certificates of Obligation, Series 2013 in the amount of $7,148,755. The Series 2012 Certificates were issued for the purposes of police radio system improvements. The Series 2013 Certificates were issued to design, construct, and equip a new aquatic facility.

Special Revenue Bonds – The City of Farmers Branch issued special revenue bonds to provide funds for the acquisition and construction of a community ice-skating and conference facility including public parking areas. Special revenue bonds are payable from the hotel occupancy tax and lease payments from the Dallas Stars with any deficiency to be paid from lessee deposits and/or from ad valorem taxes.

Bonds payable at September 30, 2013 are comprised of the following individual issues:

Govenmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity (%)	Final Maturity	Outstanding Sept. 30, 2013
General Obligation Bonds:					
Certificates of obligation, taxable	2009	$ 10,000,000	1.50 - 5.22	2024	$ 7,805,000
General obligation refunding and improvement bonds	2010	5,605,561	2.00 - 4.00	2030	5,062,306
Certificates of obligation	2012	3,000,000	1.69	2023	3,000,000
Certificates of obligation	2013	7,148,755	2.50 -4.50	2032	7,134,902
Total General Obligation Bonds		25,754,316			23,002,208
Special Revenue Bonds:					
General obligation refunding and improvement bonds	2010	$ 1,697,394	2.00 - 4.00	2014	$ 446,723
General obligation refunding bonds, taxable	2011	7,035,000	0.44 - 4.00	2025	6,366,350
Total Special Revenue Bonds		8,732,394			6,813,073
Total Governmental Activities		$ 34,486,710			$ 29,815,281

Legal Debt Margin – The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt.

Calculation of Legal Debt Margin – September 30, 2013

Adjusted Tax Base Valuation	$3,688,232,621
Constitutional Limit	2.5% of assessed valuation
Maximum Constitutional Revenue Available	$92,205,815
Tax Rate to Achieve Maximum Tax Revenue	$2.5000 per $100 of valuation
Adopted Tax Rate for Fiscal Year 2012-13	$0.5295 per $100 of valuation
Available Unused Constitutional Maximum Tax Rate	$1.9705 per $100 of valuation

Developer Advances – In prior years, the City entered into a development agreement, whereby American Realty Trust, Inc., Income Opportunity Realty Investors, Inc., and Transcontinental Realty Investors, Inc. agreed to advance funds to the City for project construction costs in Tax Increment Financing District No. 1 ("TIF No. 1"). The funds advanced and interest payable may be reimbursed only from the TIF No. 1 fund to the extent such funds are on deposit in the fund. Interest accrues beginning from the date the funds are received by the City. The interest rate is the lower of six percent or the developer's actual cost of funds. This interest is calculated on a simple straight-line basis semiannually on the unpaid balance plus accrued interest to date.

Landfill Closure and Postclosure Costs – The City owns a sanitary landfill site located in the city of Lewisville, Texas. On October 1, 2008, the City renewed a previous ten-year contract with Allied Waste North America, Inc. ("Allied Waste") for the operation and management of the landfill. The current agreement continues until all permitted air space has been filled with waste material.

The landfill operates on a "cell" basis and state and federal laws require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The site capacity of 24.5 million cubic yards will be reached in approximately 23 years. The City recognizes a portion of the final closure and postclosure care liability in each operating period even though actual final payout will not occur until the landfill is completely closed.

The amount recognized as a liability is based on the landfill capacity used as of the balance sheet date. As of September 30, 2013, the City had incurred a liability of $15,058,235, which represents the amount of costs estimated to date based on 75% of landfill capacity used to date. This amount includes a reduction of $425,056 for closure related expenditures paid during fiscal year 2013. The remaining estimated liability for these costs is $5,101,697, which will be recognized as the remaining capacity is used. Additionally, during the term of the agreement the City is required to maintain a special revenue fund for future landfill closure and postclosure costs and has restricted the fund balance of $6,171,018 for these costs. The estimated cost of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

Changes in long-term liabilities - Changes in the City's long-term liabilities for the year ended September 30, 2013 are as follows:

	Balance at Beginning of Year	Increase	Decrease	Balance at End of Year	Due Within One Year
Governmental activities					
General obligation bonds	$ 13,495,000	$ 9,500,000	$ (745,000)	$ 22,250,000	$ 1,265,000
Special revenue bonds	7,650,000		(855,000)	6,795,000	870,000
Premium	144,001	648,755	(22,475)	770,281	41,892
Total bonds payable	21,289,001	10,148,755	(1,622,475)	29,815,281	2,176,892
Developer advances	7,868,887		(400,000)	7,468,887	
Compensated absences	5,758,620	2,218,017	(2,297,758)	5,678,879	566,215
Net pension obligation	3,182,487	4,933,791	(4,906,742)	3,209,536	
Other post employment benefits obligation	1,004,827	938,071	(888,695)	1,054,203	
Claims	746,994	4,649,610	(4,289,555)	1,107,049	746,672
Landfill closure and postclosure care costs	14,929,868	553,423	(425,056)	15,058,235	
Governmental activities long-term debt	$ 54,780,684	$ 23,441,667	$ (14,830,281)	$ 63,392,070	$ 3,489,779
Business-type activities					
Compensated absences	$ 278,470	$ 59,603	$ (115,376)	$ 222,697	$ 46,337
Other post employment benefits obligation	73,943	70,608	(66,891)	77,660	
Business-type activities long-term debt	$ 352,413	$ 130,211	$ (182,267)	$ 300,357	$ 46,337
Total	$ 55,133,097	$ 23,571,878	$ (15,012,548)	$ 63,692,427	$ 3,536,116

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, internal service fund liabilities for claims payable of $1,107,049, compensated absences of $82,742, and other post employment benefits obligation (OPEB) of $20,217 are included in the above amounts. Also, for the governmental activities, claims payable, compensated absences, OPEB and net pension obligation are generally liquidated by the general fund. The developer advances will be liquidated from the TIF No. 1 District capital projects fund. The landfill closure and postclosure care costs will be liquidated from the landfill closure/postclosure fund.

The debt service requirements for each bond type are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total	Special Revenue Bonds Principal	Special Revenue Bonds Interest	Special Revenue Bonds Total
2014	$ 1,303,816	$ 811,873	$ 2,115,689	$ 873,076	$ 181,206	$1,054,282
2015	1,360,539	766,993	2,127,532	426,353	171,436	597,789
2016	1,405,539	722,516	2,128,055	436,353	165,171	601,524
2017	1,455,539	672,855	2,128,394	441,353	157,357	598,710
2018	1,505,539	618,035	2,123,574	451,353	147,937	599,290
2019-2023	8,492,695	2,134,844	10,627,539	2,481,765	538,761	3,020,526
2024-2028	4,537,695	766,860	5,304,555	1,702,820	102,846	1,805,666
2029-2033	2,940,846	193,188	3,134,034			
Total	$ 23,002,208	$6,687,164	$ 29,689,372	$6,813,073	$1,464,714	$8,277,787

G. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters: and, injuries to employees. A Schedule of Insurance Policies in Force showing the type of coverage, deductible, and liability limit is shown in Table 18 on page 100.

Workers' Compensation Insurance - The City has established the workers' compensation fund (an internal service fund) to account for workers' compensation uninsured risks of loss. Under this program, the workers' compensation fund provides coverage for up to a maximum of $350,000 for each workers' compensation occurrence claim.

The costs associated with this self-insurance plan are funded by charges to the City's other funds. Liabilities include provisions for claims reported and claims incurred, but not reported. The provision for reported claims is computed by the City's third party administrator based upon standard actuarial principles. The provision for claims incurred, but not yet reported, is estimated based on the City's experience and an actuarial study that was performed during fiscal year 2013. State law provides that the City is relieved of liability if a notice of employee injury has not been received within 30 days of the date on which the injury occurs.

At September 30, 2013, the amount of workers' compensation liabilities was $679,957. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses (ALAE), which are primarily legal expenses. Changes in the balance of claims liability during the past two years are as follows:

Fiscal Year	Beginning Fiscal Year Liability	Claims Incurred	Claims Payments	Changes in Estimates	Ending Fiscal Year Liability
2011-2012	$257,189	$33,310	($119,986)	$164,437	$334,950
2012-2013	$334,950	$131,668	($256,130)	$469,469	$679,957

At September 30, 2013, workers' compensation fund cash and investments of $712,333 were held for the purpose of funding future obligations. The City continues to carry commercial insurance for other risks of loss (except medical insurance as described in the following section). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Group Medical Insurance – The health claims fund (an internal service fund) was established to account for the provision of group medical insurance coverage for employees and their dependents and eligible retirees and their dependents. The City's medical insurance program is a "self-insured" plan funded by both the City and participating employees and retirees. The City makes a predetermined contribution to the plan each month for a portion of medical group insurance coverage. This is done on a bi-monthly basis for qualifying City employees and their dependents and on a monthly basis for qualifying retirees and their dependents. Employees contribute through payroll deductions for the balance of their medical coverage. Retirees are billed on a monthly basis by the City for the balance of their medical coverage.

The City's medical insurance program is made up of two contracts, a specific stop loss contract and an aggregate stop loss contract. The specific stop loss contract has a specific deductible of $100,000 per individual and an $80,000 aggregating specific corridor with an unlimited lifetime maximum benefit on eligible expenses. The aggregate stop loss contract has a minimum attachment point of $4,539,095. The attachment point may go up based on an increase in enrollment, but the minimum or lowest it will ever be is $4,539,095. The aggregate contract will pay up to $1,000,000 on total claims over the attachment point.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for this service.

At September 30, 2013, the amount of estimated claims payable was $427,092. Changes in the reported liability since October 1, 2011 resulted from the following:

Fiscal Year	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2011-2012	$361,776	$3,483,674	($3,433,406)	$412,044
2012-2013	$412,044	$4,048,473	($4,033,425)	$427,092

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by an independent consultant.

1) Commitments and Contingencies

The City has several long-term agreements with significant commitments as follows:

a. City of Dallas Water Purchase Agreement - The City purchases treated water from the City of Dallas under a 30-year contract negotiated in August 2010. The City makes payments to the City of Dallas at a rate of $.3673 per 1,000 gallons plus $208,941 per year for each million gallons per day rate of flow (maximum delivery rate). The City paid $4,476,816 to the City of Dallas for the fiscal year ended September 30, 2013.

b. Trinity River Authority (the "Authority") Sewage Disposal Agreement - On November 29, 1973, the City, along with other cities, entered into a 50-year contract with the Authority, whereby the Authority will provide and operate a regional wastewater treatment plant and wastewater conveyance facility constructed with the Authority's funds. In return, the cities agreed to pay for such services based on a usage formula that will provide reimbursements for operations, maintenance, and debt service payments to the Authority. The cities are jointly and severally responsible for the above payments. Each city's proportionate share is determined annually according to its contributing flow to the system. The City paid $2,357,421 to the Authority for the fiscal year ended September 30, 2013.

The City is involved in various legal actions in which claims of varying amounts are being asserted against the City. The City follows the practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount. In the opinion of City management, these actions will not result in a significant impact of the City's financial position.

The City participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, which may be disallowed by the grantor, cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. For the year ended September 30, 2013, grant expenditures did not exceed the threshold for the single audit requirement; therefore, a single audit was not performed.

2) Postemployment Benefits Other Than Pensions

Plan Description - The City of Farmers Branch administers a single-employer defined contribution healthcare plan (the "Retiree Benefit Plan"). The plan contributes to postemployment healthcare benefits through the City's group health insurance plan, which covers both active and retired members (see funding policy below). Contributions are established through City policy as approved by City Council. The Retiree Benefit Plan does not issue a publicly available financial report.

The eligibility requirements are:

- Must be a current, full-time employee hired prior to January 1, 2007;
- Must have worked for the City for at least ten years, which do not need to be concurrent;
- Must meet the eligibility requirements of the Texas Municipal Retirement System (TMRS) and retire from the City; and,

- Must be on the City's health plan at the time of retirement, and for dependents to be carried on the health plan, they must also be on the plan at that time.

Funding Policy - Contribution requirements are set by City policy as approved by City Council. The City contributes the cost of the "employee only" premium for the City's base plan, $500 annually to a health savings account for those retirees selecting the high deductible health insurance plans, and the full premium for life insurance coverage of $12,000. The eligible City retiree receives city paid coverage until age 65. In fiscal year 2013, the City contributed $955,586 to the plan. Plan members receiving benefits contribute the additional cost above the "employee only" base medical premium and the full group premium for dental or vision plans selected. In fiscal year 2013, total member contributions were $203,703.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ending September 30, 2013 is as follows:

Annual required contribution (ARC)	$ 1,005,110
Interest on net OPEB obligation	48,545
Adjustment to the ARC	(44,976)
Annual OPEB cost	$ 1,008,679
Contributions made	955,586
Increase in net OPEB obligation	$ 53,093
Net OPEB obligation, beginning of year	1,078,770
Net OPEB obligation, end of year	$ 1,131,863

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2013 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
2011	$ 816,300	$ 270,927	33%	$1,024,602
2012	$ 345,046	$ 290,878	84%	$1,078,770
2013	$1,008,679	$ 955,586	95%	$1,131,863

Funding Status – The funded status of the City's retiree benefit plan under GASB Statement No. 45 as of December 31, 2012 is as follows:

Fiscal Year	Actuarial Valuation Date as of	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	Ratio of UAAL to Annual Covered Payroll (b-a)/d
2013	12/31/2012	$ 0	$ 13,236,863	$ 13,236,863	0.0%	$ 15,812,192	83.7%

Under the reporting parameters, the City's retiree benefit plan is 0.0% funded with an estimated actuarial liability exceeding actuarial assets by $13,236,863 at December 31, 2012. As of the most recent valuation, the ratio of unfunded actuarial accrued liability to annual covered payroll is 83.7%.

Actuarial Methods and Assumptions – The projected unit credit actuarial cost method is used to calculate the GASB ARC for the City's retiree benefit plan. Using the plan benefits, the present health premiums, and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year, open amortization
Payroll growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.50% declining to an ultimate rate of 4.50% after 8 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions to the City's retiree benefit plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

3) Employee Retirement System

Plan Description - The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 849 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are 200% of the employee's accumulated contributions. Beginning in 1996 the City granted, on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically computing the member's account balance by assuming that the current member deposit rate of 7% and City matching ratio of 2 to 1 has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the 2 to 1 City match currently in effect. The resulting sum is then compared to the member's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Additionally initiated in 1996, the City provides, on an annually repeating basis, increases for retirees equal to 70% of the change in the Consumer Price Index (CPI).

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Funding Policy – The contribution rate for employees is 7% of employee gross earnings and the City matching ratio is 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined by the actuary annually, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. During the period from January 1, 2009 through September 30, 2011, the City of Farmers Branch elected to contribute a minimum amount equal to its annual required contribution (ARC) less a "phase in" of the increase from the change to the Projected Unit Credit cost method in the 2007 valuation. This caused the City to have an actual contribution less than the actuarially determined ARC, and therefore to accrue a net pension obligation on its balance sheet. In subsequent years, this net pension obligation will be amortized using the same amortization factor used to determine the ARC for a given year. The phase in period was due to last eight years from fiscal year 2009 through fiscal year 2016; however, changes in state law have allowed the City to begin paying the full rate starting with the beginning of fiscal year 2012 on October 1, 2011, thereby eliminating additional "phase in" rate steps.

The annual pension cost (APC) and net pension obligation (NPO) are as follows:

Annual required contribution (ARC)	$ 4,906,741
Interest on net pension obligation (NPO)	222,774
Adjustment to the ARC	(195,725)
Annual pension cost (APC)	$ 4,933,790
Contributions made	4,906,741
Increase in net pension obligation	$ 27,049
Net pension obligation, beginning of year	3,182,487
Net pension obligation, end of year	$ 3,209,536

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (NPO)
2011	$ 5,893,164	$ 4,877,054	83%	$ 3,151,514
2012	4,794,527	4,763,554	100%	3,182,487
2013	4,933,790	4,906,741	100%	3,209,536

Funded Status and Funding Progress – The funded status as of December 31, 2012, the most recent actuarial date, is presented as follows:

Fiscal Year	Actuarial Valuation Date as of	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	Ratio of UAAL to Annual Covered Payroll (b-a)/d
2013	12/31/2012	$176,561,067	$ 204,295,430	$ 27,734,363	86.4%	$ 24,893,319	111.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements in Exhibit E-1, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The annual required contribution (ARC) for the plan was determined as part of the December 31, 2012 actuarial valuation using the following methods and assumptions:

Actuarial Assumptions 2013

Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Per	-	25.3 Years - Closed Period
Amortization Period for New Gains/Losses	-	30 years
Asset Valuation Method	-	10-year Smoothed Market
Investment Rate of Return	-	7.0%
Projected Salary Increases	-	Varies by age and service
Includes Inflation At	-	3.0%
Cost-of-Living Adjustments	-	2.1% (3.0% CPI)

Plan Information - The City of Farmers Branch is one of 849 municipalities having the benefit administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2012 valuations are contained in the 2012 TMRS Comprehensive Annual Financial Report that includes the financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.org.

On October 9, 2013, subsequent to the City's year end, the TMRS Board adopted two significant changes that will affect future actuarial values:

(a) Update to the mortality table used to determine the annuity purchase rate – The change in mortality tables was necessary to reflect the increasing life expectancy of plan members and retirees. Effective January 1, 2015, this change will affect future retirees only and will be phased in over thirteen years.

(b) Change from the Projected Unit Credit to the Entry Age Normal actuarial method – Entry Age Normal (EAN) is the most widely used actuarial method by public sector pension plans and will be required by GAAP beginning in fiscal year 2015 for determination of the Net Pension Liability for financial reporting purposes. Changing to the EAN for funding purposes enables TMRS to more closely coordinate with the financial reporting requirements.

Both changes will be reflected in the December 31, 2013 valuation. Adoption of the updated mortality tables for determining the annuity purchase rate will slow the growth of the annuities of future retirees resulting in a reduction of the accrued actuarial liability. Adoption of EAN will produce higher accrued actuarial liabilities. While the combined impact of these two changes will partially offset, the City is expecting an overall reduction in funded status for the December 2013 actuarial valuation.

4) Accounting Standards

The GASB has issued the following Statement which will become effective in future years as shown below:

Statement No. 68, "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will become effective for the City in fiscal year 2015. Although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements.

Statement No. 69, *"Government Combinations and Disposals of Government Operations"* will be effective September 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"* will be effective September 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Management has not yet determined the impact of this Statement on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013
(UNAUDITED)

Texas Municipal Retirement System Schedule of Funding Progress
Last Three Fiscal Years

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	12/31/2010	$ 158,506,492	$ 190,757,068	$ 32,250,576	83.1%	$ 27,316,388	118.1%
2012	12/31/2011	167,716,459	198,231,012	30,514,553	84.6%	25,307,120	120.6%
2013	12/31/2012	176,561,067	204,295,430	27,734,363	86.4%	24,893,319	111.4%

Retiree Benefit Plan Schedule of Funding Progress
Last Three Fiscal Years

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll*	UAAL as a Percentage of Covered Payroll
2011	10/1/2010	$ 0	$ 4,530,192	$ 4,530,192	0.0%	$ 17,678,134	25.6%
2012	10/1/2011	0	4,754,942	4,754,942	0.0%	17,587,927	27.0%
2013	12/31/2012	0	13,236,863	13,236,863	0.0%	15,812,192	83.7%

* The annual covered payroll for the Retiree Benefit Plan includes only full time employees hired prior to January 1, 2007.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

214.468,3800 Office
214.468.3888 Fax

Bracewell & Giuliani LLP
1445 Ross Avenue
Suite 3800
Dallas, Texas
75202-2711

[CLOSING DATE]

$________________
CITY OF FARMERS BRANCH, TEXAS
GENERAL OBLIGATION BONDS
SERIES 2014

WE HAVE represented the City of Farmers Branch, Texas (the "Issuer") as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF FARMERS BRANCH, TEXAS, GENERAL OBLIGATION BONDS, SERIES 2014, dated July 15, 2014 in the principal amount of $________________.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer and customary certificates of officers, agents and representatives of the Issuer, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have examined executed Bond No. 1 of this issue. We have also examined such applicable provisions of the Internal Revenue Code of

1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance adopted by the Issuer with respect to the issuance of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer; and

(B) A continuing ad valorem tax upon all taxable property within the City of Farmers Branch, Texas, necessary to pay the principal of and interest on the Bonds has been levied and pledged irrevocably for such purposes, within the limit prescribe by law, and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

(2) The Bonds are not "private activity bonds" within the meaning of the Code and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial purchasers, respectively, which we have not independently verified and have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

214.468,3800 Office
214.468.3888 Fax

Bracewell & Giuliani LLP
1445 Ross Avenue
Suite 3800
Dallas, Texas
75202-2711

[CLOSING DATE]

$___________________
CITY OF FARMERS BRANCH, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION,
SERIES 2014

WE HAVE represented the City of Farmers Branch, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

> CITY OF FARMERS BRANCH, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014, dated July 15, 2014 issued in the principal amount of $___________________.
>
> The Certificates mature, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Ordinance”).

WE HAVE represented the Issuer as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials, and other certified showings relating to the authorization and issuance of the Certificates. We have further examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and

(B) A continuing ad valorem tax upon all taxable property within the City of Farmers Branch, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a pledge of the Surplus Revenues of the Issuer's Waterworks and Sewer System (as defined in the Ordinance), such pledge being limited to an amount not in excess of $1,000; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and

(2) The Certificates are not "private activity bonds" within the meaning of the Code, and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations except that interest on the Certificates will

be included in the "adjusted current earnings" of the corporation (other than an S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial purchasers respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

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